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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

BACKGROUND MATERIAL ON FAMILY INCOME AND BENEFIT CHANGES

PREPARED FOR A HEARING TO BE HELD ON DECEMBER 19, 1991

DECEMBER, 19, 1991

Prepared for the use of Members of the Committee on Ways and Means by members of its staff. This document has not been officially approved by the Committee and may not reflect the views of its Members

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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS
DAN ROSTENKOWSKI, ILLINOIS, *Chairman*

ROBERT J. LEONARD, *Chief Counsel and Staff Director*

This document was prepared by the majority staff of the Committee on Ways and Means and is issued under the authority of Chairman Dan Rostenkowski. This document has not been reviewed or officially approved by the Members of the Committee

PREFACE

This document has been prepared for use by Members of the Subcommittee on Human Resources, Committee on Ways and Means, at a hearing on December 19, 1991, on selected issues related to the Aid to Families with Dependent Children (AFDC) and Job Opportunities and Basic Skills (JOBS) programs.

The print illustrates the most recent income and benefit changes for families in the United States. There are six sections: Review of the Family Support Act Cost Estimates; the Combined Impact of AFDC, Food Stamps, and Federal Tax Policy upon the Income of Female-Headed Families: 1960–1991; Marriage Penalties Faced by Low-Income Welfare Recipients; Antipoverty Effectiveness of Various Cash, Near-Cash and Noncash Income Sources; Distribution of Income and Federal Taxes; and Treatment of Income and Resources of the Self-Employed Under Aid to Families With Dependent Children, Supplemetal Security Income, and Food Stamps. Three of the sections provide updates to the Committee's 1991 Green Book.

The Subcommittee expresses its appreciation to the Congressional Budget Office (CBO) and the Congressional Research Service (CRS) for their invaluable assistance in preparing this Committee print. In particular, the Subcommittee wishes to thank Bob Williams, Jan Peskin, Chuck Seagrave, Julie Isaacs, and John Tapogna of the CBO for the analysis in section 1. Carmen Solomon of the CRS was responsible for the State Aid to Families with Dependent Children benefit levels used by committee staff in preparing sections 2 and 3. Bob Williams and Rick Kasten are responsible for preparing tables 1 through 5 in section 4 and all of the tables in section 5. Finally, the two memos in section 6 were prepared by Carmen Solomon and Joe Richardson.

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EXECUTIVE SUMMARY

Section 1 contains an analysis by the Congressional Budget Office (CBO) of the spending and revenue estimates under the Family Support Act of 1988. Under the original estimates, the Family Support Act was budget neutral. Outlays and revenues over the 5-year period from 1989 through 1993 were both estimated to be $3.3 billion. Generally, outlays under the act are somewhat less than estimated. However, revenues from the changes in the dependent care credit are substantially greater. Over the 5-year period, revenues are $7.7 billion greater than originally estimated.

Section 2 examines changes in Aid to Families with Dependent Children (AFDC) benefit levels over the period from 1972 through 1991. Over this period, AFDC benefit levels have fallen in real terms by 41 percent, and combined AFDC and food stamp benefit levels have declined by 26.5 percent after adjusting for inflation. Only two States (New Mexico and Kentucky) have increased AFDC benefit levels by more than inflation between 1988 and 1991.

Section 3 contains an analysis of the economic incentives for a low-income mother with two children to marry or live with a male earning $10,000, $15,000 or $20,000 in several States. The financial disincentive to marriage for these mothers are great and marriage penalties can range from $1,000 to $10,000.

Section 4 contains an analysis of why the number of individuals in poverty has increased between 1979 and 1990. As shown in table 8 in this section, over one-half (55 percent) of the increase in the number who are poor can be attributed to demographics and increasing population. Approximately, one-quarter of the increase can be attributed to reductions in antipoverty effectiveness of means-tested programs and one-fifth due to reduced effectiveness of social insurance programs. In the mid-1980's, tax policy was responsible for increasing the number who are poor by 2.4 million individuals or 1 percentage point. As a result of tax policy changes in 1986, this has declined to 1.1 million and is expected to fall to zero when the earned income tax credit changes are fully effective in 1994.

Section 5 contains an update of income and tax distributions that have been previously published in the Green Book. This new analysis shows that the income gains of the richest 1, 5, or 10 percent of the population declined significantly between 1988 and 1989. However, the increase in the after-tax income of the richest 1 percent still increased by over 100 percent between 1977 and 1989, the latest year for which information is available. In contrast, pretax incomes of families with children in the poorest 20 percent of the population declined by over 20 percent over the same time period.

I. REVIEW DEVELOPMENTS IN THE IMPLEMENTATION OF THE 1988 FAMILY SUPPORT ACT

Introduction

This paper [1] reviews the key assumptions made in the Congressional Budget Office's (CBO) 1988 estimates of the Family Support Act (FSA). The discussion is limited to those provisions where new data are available: the Job Opportunities and Basic Skills Training program (JOBS), child care assistance, the expansion of the Aid to Families with Dependent Children program for Unemployed Parents (AFDC–UP), paternity establishment and the limitations to the dependent care credit. We have not commented on the majority of the FSA spending provisions, including transitional Medicaid benefits, mandatory child support guidelines, and immediate wage withholding. CBO estimated large costs and savings for many of the provisions omitted from this discussion; therefore, this is not a comprehensive reestimate of the act.

Job Opportunities and Basic Skills Training Program (JOBS)

The Family Support Act required States to have a JOBS program for AFDC recipients operating no later than October 1, 1990, although they could begin a program earlier if they chose. JOBS is a capped entitlement, for which the 1990 cap was set at $800 million and the 1991 cap at $1 billion. States are required to match Federal spending, at a rate that varies by State but is no more than 40 percent.

In 1988, CBO estimated that not all of the States would spend enough to draw down the full amount of available Federal funds. According to CBO, Federal outlays would reach $345 million in 1990 and $600 million in 1991. Actual outlays were $264 and $546 million, respectively. In 1991, spending totaled only 55 percent of the $1 billion in available funds.

Child Care Assistance

The Family Support Act authorized child care assistance for JOBS participants and transitional child care (TCC) benefits for families leaving AFDC because of earnings. In 1988, CBO estimated that $90 million would be spent in 1990 on JOBS child care, including $60 million in spending for families in work-related programs under prior law and $30 million for families newly placed in JOBS programs as a result of the Family Support Act. The transitional child care program, which began April 1, 1990, was estimated originally to add $25 million, bringing the projected 1990 total to $115

[1] Paper prepared by the Congressional Budget Office at the request of the Subcommittee on Human Resources.

million. Child care outlays from these two programs were estimated to increase to $340 million in 1991, including $135 million for JOBS child care (of which $50 million was attributed to the Family Support Act) and $205 million for transitional child care.

Data from the Department of Health and Human Services (HHS) indicate total spending for the two child care programs of $122 million in 1990 and $308 million in 1991. These levels are close to the $115 million and $340 million outlay projections by CBO. In both years, higher than expected spending for JOBS child care was offset by lower than expected spending for TCC benefits.

Actual data disaggregated by program shows spending for JOBS child care of $111 million in 1990 and $263 million in 1991 and spending for TCC of $11 million in 1990 and $45 million in 1991. Child care funding for those in the JOBS program is higher than CBO had projected, even though spending for the JOBS program itself has been below expectations. In contrast, preliminary data from the States suggests that only 46,000 children received TCC benefits in August 1991, many fewer than the 280,000 children assumed in the CBO estimate. While some of this discrepancy may be caused by underreporting of TCC participants and implementation delays, it also reveals that TCC participation rates are lower than expected.

Paternity Establishment

Section 111 of the Family Support Act established performance standards to enhance the Nation's paternity establishment effort. The standards relate to the paternity establishment ratio, which is defined as the number of children who are born out of wedlock to mothers using child support services and whose paternity has been established divided by the total number of children born out of wedlock to mothers using child support services. Specifically, the Federal mandates require that States (1) have a paternity establishment ratio of at least 50 percent; or (2) have a paternity establishment ratio that equals the national average; or (3) have increased the ratio 3 percentage points from fiscal year 1988 to 1991 and by 3 percentage points each year thereafter. In 1988, (CBO) estimated the Federal costs of the provision would decrease from $40 million in fiscal year 1991 to $15 million in fiscal year 1993, as collections provided savings in the latter years.

At the time of CBO's cost estimate, the Office of Child Support Enforcement (OCSE) did not have sufficient data to calculate paternity establishment ratios for each State. Therefore, for purposes of the estimate, CBO assumed that the States would meet the Federal mandate by increasing their ratios by an average of 3 percentage points in 1991 and beyond. Given this assumption, CBO projected that States would establish 463,000 paternities in fiscal year 1991 (that is, 347,000 as a result of normal baseline growth and 116,000 as a result of the new legislation).

Preliminary OCSE data for the first three quarters of fiscal year 1991 show 352,000 established paternities. Based on trends in previous years, the total for 1991 should reach 480,000 establishments, or 17,000 more than the CBO forecast in 1988. While this appears to support the CBO estimate made in 1988, we can still only specu-

late how many of the recent establishments were induced by the FSA change.

Aid to Families with Dependent Children for Unemployed Parents (AFDC–UP)

The Family Support Act required that all States were to have an AFDC–UP program by October 1, 1990. Previously, about one-half of the States had such programs. For fiscal year 1991, an average 22,000 AFDC–UP cases in States that had not previously had AFDC–UP programs received benefits each month, at an estimated annual cost to the Federal Government of about $50 million. This cost is significantly below CBO's estimated cost of $150 million in AFDC benefit payments at the time the Family Support Act was passed. In addition, Medicaid costs for these families in 1991 were overestimated in 1988.

The major source of the error is in the projection of the number of participating families. CBO estimated that 65,000 families would participate, about three times the actual number. One element is that participating families were probably overestimated primarily because of an assumed participation rate that was too high.[2] CBO assumed a participation rate of 55 percent, slightly below the participation rate that prevailed in the AFDC–UP program in the early 1980's. Participation rates in the States that had to implement an AFDC–UP program, however, turned out to be lower on average than rates in other States. Also, participation rates have been estimated to vary widely across States in the AFDC–UP program, from barely 1 percent to over 90 percent, for reasons no one understands. In March 1991, only two of the new AFDC–UP States—Kentucky and Texas—had more than 5,000 families receiving AFDC–UP; 11 of the States had fewer than 500 families receiving benefits.

It is also possible that the estimates of the number of families who would be newly eligible for AFDC–UP were too high, but there is no way to check those estimates. For them to have been correct, the actual participation rate would have to be 22 percent, which is low by historical standards, but is possible.

Limitations to the Dependent Care Credit

The only direct effects of the Family Support Act on individual income tax revenues result from changes in requirements for and limitations to the dependent care credit. Three specific provisions of the act served to reduce the tax credits claimed for dependent care expenses. These were:

—The age limit on children for whom child care costs qualify for the credit was reduced from under age 15 to under age 13.

—The limit on expenses eligible for the credit was reduced by the amount of expenses excludable from taxable income because of the dependent care exclusion.

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[2] The participation rate is the proportion of families eligible for program benefits who participate in the program.

—Dependent care expenses could qualify for the credit only if the name, address, and taxpayer identification number of the caregiver was provided on the tax return.

The Joint Committee on Taxation estimated in 1988 that these three provisions would increase revenues from the individual income tax by $50 million in fiscal year 1989, by $197 million in fiscal year 1990, and by $959 million over the 1989–93 period.

During the 1980's, the cost of the dependent care credit grew rapidly, from $1 billion in calendar year 1980 to $3.8 billion in calendar year 1988. The rise resulted from increases in both the number of tax returns claiming the credit and the average credit claimed per return. Returns claiming the credit more than doubled from 4.2 million in 1980 to 9 million in 1988, while the average credit rose from $226 to $423 per return. In the absence of the dependent care credit provisions of the Family Support Act, these upward trends would probably have continued, although at a reduced pace.

The amount of dependent care credits actually claimed fell sharply following enactment of the Family Support Act, from $3.8 billion in 1988 to $2.2 billion in 1989 (see the top panel of table 1). The amount of the credit is expected to rise slowly over the next few years.

These estimates suggest that the actual revenue gains resulting from the dependent care credit provisions of the act are about $2 billion per year, substantially higher than savings projected at the time the act was passed (see the bottom panel of table 1). The effects of the requirement that taxpayers identify caregivers in order to claim the credit have been larger than analysts expected in 1988.

TABLE 1.—THE DEPENDENT CARE CREDIT AND RELATED REVENUE INCREASES RESULTING FROM THE FAMILY SUPPORT ACT OF 1988, 1988–1993

[In billions of dollars]

	1988	1989	1990	1991	1992	1993
Actual and Projected Revenue Loss from Dependent Care Credit by Calendar Year						
Based on tax law prior to the Family Support Act	[1] 3.8	4.0	4.2	4.5	4.6	4.8
Based on tax law following the Family Support Act	[1] 3.8	[1] 2.2	[2] 2.3	[3] 2.4	[3] 2.5	[3] 2.6
Estimated Revenue Gain from the Family Support Act by Fiscal Year						
1988 estimate		0.1	0.2	0.2	0.2	0.3
1991 estimate		0.5	1.9	2.0	2.1	2.2

[1] Actual.
[2] Preliminary.
[3] Trend projection.

Note.—Calendar year estimates of the dependent care credit were converted to fiscal year estimates by attributing to the current fiscal year one-fourth of credit for the current calendar year and three-fourths of the credit for the prior calendar year. Thus, for example, the revenue loss for fiscal year 1989 equals 0.25 times the credit for calendar year 1989 plus 0.75 times the credit for calendar year 1988.

Source: Statistics of Income and Congressional Budget Office.

II. COMBINED IMPACT OF AFDC, FOOD STAMPS, AND FEDERAL TAX POLICY UPON THE INCOME OF FEMALE-HEADED FAMILIES: 1972 TO 1991

This section examines the effect of AFDC, food stamps and Federal tax policy on the disposable income of female-headed families. The analysis calculates the weighted-average disposable income (weighted across States by 1980 State populations) available to female-headed families with two children, at various wage levels. Disposable income includes wages, AFDC and food stamp benefits, and Federal taxes (income plus employee payroll taxes). It does not include the value of health-care benefits. To make comparisons across time, wages are expressed in constant dollars or as a percentage of the appropriate poverty threshold. Alaska and Hawaii are not included in this analysis, but the District of Columbia is included. Thus, the maximum number of States is 49. A complete description of the methodology is presented at the end of this section.

Table 1 presents the benefit levels and the percentage change in AFDC and food stamps for a mother and two children from 1972 to 1991. AFDC benefits have steadily declined over this time period in constant dollars from $8,178 in 1972 to $4,823 in 1991. This represents a 41 percent decrease, and when combined with food stamps yields a 26.5 percent decrease in total AFDC and food stamp benefits since 1972.

Table 2 shows the change in State AFDC benefit levels for a mother and two children with no earnings since 1987. Although many States have increased or held constant the dollar level of benefits since 1987, the changes have been generally less than inflation, yielding a significant decline in real (adjusted for inflation) terms over the time period. For example, while from 1988 to 1989, 25 States held benefit levels constant and 26 States increased benefits, in real terms only 2 States increased benefits while 49 States reduced benefits.

TABLE 1.—AFDC AND FOOD STAMP BENEFIT LEVELS FOR A MOTHER AND TWO CHILDREN WITH NO EARNINGS

[Weighted averages across States in 1991 dollars]

	AFDC	Food stamps	Total
1972	8,178	1,991	10,169
1976	7,154	2,319	9,473
1980	5,948	2,207	8,155
1984	5,280	2,287	7,567
1985	5,345	2,327	7,672
1986	5,461	2,307	7,768
1987	5,383	2,269	7,652
1988	5,321	2,355	7,676
1989	5,187	2,344	7,531
1990	5,010	2,532	7,542
1991	4,823	2,648	7,471
Percentage change:			
1972–91	—41.0	33.0	—26.5
1990–91	—3.7	4.6	—.9
1972–80	—27.3	10.8	—19.8
1980–84	—11.2	3.6	—7.2
1984–91	—8.7	15.8	—1.3

Note.—Dollars are adjusted for inflation using CPI–U.

Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

TABLE 2.—CHANGE IN MONTHLY AFDC BENEFIT LEVELS FOR A MOTHER AND TWO CHILDREN WITH NO EARNINGS

[July benefit levels]

Number of States	1987–88	1988–89	1989–90	1990–91
Actual:				
Reduced	1	0	2	2
Same	23	25	28	30
Increased	27	26	21	19
Total	51	51	51	51
Real:				
Reduced	39	49	46	41
Increased	12	2	5	10
Total	51	51	51	51

Note.—All States where benefit levels stayed the same are reductions in real (adjusted for inflation) terms. Alaska and Hawaii are added to give a total of 51 States.

Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

Table 3 shows the average disposable income of a mother and two children (without child care expenses) between 1972 and 1991, at wage levels between 0 and 125 percent of the poverty level. Also included in this table are the fully phased-in percentage values for the earned income tax credit. These changes will be fully effective in calendar year 1994, but are applied to 1991 income break points. This is shown as 1991 E.

This table illustrates that families with wages equal to 50 percent of the poverty level experienced a 25 percent decline in disposable income between 1972 and 1991. The decline for families earning 75 percent of the poverty level was 22 percent. The decline in disposable income was due, in part, to the loss of AFDC as an income supplement to wages. In 1972, all States paid AFDC benefits to a family with wages equal to 75 percent of the poverty threshold; by 1991, only 5 States paid AFDC to such a family. Average tax rates on such earnings increased from 52 to 69 percent from 1972 to 1984, and then fell to 56 percent in 1991.

Table 4 and chart 1 present the composition of average disposable income at various wage levels for a family of three with no child care expenses. It is clear that total income for these families has fallen at all wage levels shown. This is due primarily to the large decreases in AFDC payments since 1972 and changes in earned income disregard policies enacted in 1981.

Table 5 also presents disposable income calculations for a mother and two children, but child care expenses have been included. The significant feature of this table is the percentage of child care reimbursed by the combination of AFDC, food stamp and Federal tax policies. This assumes that child care is not directly reimbursed by title XX or a similar program, but that day care expenses are taken into account when computing AFDC, food stamps and Federal tax liability. For a mother with earnings of 75 percent of poverty, these policies combined to reimburse 94 percent of day care expenses in 1972. By 1984, the percentage reimbursed had fallen to 46 percent, primarily because the number of States supplementing wages with AFDC had fallen from 49 to 11. In 1988, the percentage reimbursed had increased to 55 percent, and in 1991 it was 51 percent.

TABLE 3.—COMPOSITION OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER AND TWO CHILDREN WITHOUT CHILD CARE EXPENSES: SELECTED YEARS

	Wages (as a percent of poverty threshold)					
	0	25	50	75	100	125
Wages (1991 dollars)	0	2,718	5,437	8,155	10,873	13,592
Average disposable income (1991 dollars):						
1972	10,169	11,811	12,956	14,080	15,113	16,146
1976	9,473	11,137	12,441	13,729	14,753	15,512
1980	8,155	9,664	10,887	12,214	13,059	13,764
1984	7,567	8,484	8,962	10,073	11,167	12,401
1986	7,768	9,169	9,615	10,455	11,330	12,524
1988	7,676	9,240	9,760	10,852	12,371	13,741
1989	7,531	9,060	9,620	10,744	12,320	13,651
1990	7,542	9,018	9,603	10,799	12,436	13,722
1991	7,471	8,985	9,683	11,040	12,743	13,991
1991E	7,471	9,194	10,102	11,590	13,293	14,412
Percentage change:						
1972–1991	−26.5	−23.9	−25.3	−21.6	−15.7	−13.3
1980–1991	−8.4	−7.0	−11.1	−9.6	−2.4	1.6
1984–1991	−1.3	5.9	8.0	9.6	14.1	12.8
1988–1991	−2.7	−2.8	−0.8	1.7	3.0	1.8
Number of States which supplement wages with AFDC:						
1972	49	49	49	49	45	40
1980	49	49	47	42	33	20
1984	49	48	25	7	1	0
1991	49	49	33	5	0	0
Number of States with disposable income above poverty:						
1972	19	31	40	46	49	49
1976	11	26	40	49	49	49
1980	0	9	21	36	49	49
1984	0	1	2	1	49	49
1991	0	3	5	49	49	49
Average tax rate (in percent):						
1972	NA	40	49	52	55	56
1980	NA	44	50	50	55	59
1984	NA	66	74	69	67	64
1991	NA	44	59	56	52	52
1991E	NA	37	52	49	46	49

NA: Not applicable.
E: 1994 EITC parameters in 1991 dollars.

Note: Disposable income is wages plus AFDC plus food stamps less federal income and payroll taxes. Income is a weighted average across states. 1991E assumes a fully phased-in EITC. Dollars are adjusted for inflation using CPI–U.

Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

TABLE 4.—COMPOSITION OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER AND TWO CHILDREN WITHOUT CHILD CARE EXPENSES: 1972, 1980, AND 1991

Wages	1991 dollars			Percent change	Percent composition		
	1972	1980	1991	1972–91	1972	1980	1991
$0 (0 percent FPL):							
AFDC	8,178	5,948	4,823	−41	80	73	65
Food stamps	1,991	2,207	2,648	33	20	27	35
Disposable income	10,169	8,155	7,471	−27	100	100	100
$2,718 (25 percent FPL):							
Wages	2,718	2,718	2,718	0	23	28	30
AFDC	7,645	4,997	3,634	−52	65	52	40
Food stamps	1,588	1,844	2,371	49	13	19	26
EITC	0	272	470	NA	0	3	5
Federal taxes	−140	−167	−208	49	−1	−2	−2
Disposable income	11,811	9,664	8,985	−24	100	100	100
$5,437 (50 percent FPL):							
Wages	5,437	5,437	5,437	0	42	50	56
AFDC	6,408	3,642	1,306	−80	49	33	13
Food stamps	1,394	1,598	2,415	73	11	15	25
EITC	0	543	941	NA	0	5	10
Federal taxes	−283	−333	−416	47	−2	−3	−4
Disposable income	12,956	10,887	9,683	−25	100	100	100
$8,155 (75 percent FPL):							
Wages	8,155	8,155	8,155	0	58	67	74
AFDC	5,108	2,437	215	−96	36	20	2
Food stamps	1,240	1,307	2,059	66	9	11	19
EITC	0	815	1,235	NA	0	7	11
Federal taxes	−423	−500	−624	48	−3	−4	−6
Disposable income	14,080	12,214	11,040	−22	100	100	100
$10,873 (100 percent FPL):							
Wages	10,873	10,873	10,873	0	72	83	85
AFDC	3,718	1,512	0	−100	25	12	0
Food stamps	1,088	923	1,467	35	7	7	12
EITC	0	710	1,235	NA	0	5	10
Federal taxes	−566	−959	−832	47	−4	−7	−7
Disposable income	15,113	13,059	12,743	−16	100	100	100
$13,592 (125 percent FPL):							
Wages	13,592	13,592	13,592	0	84	99	97
AFDC	2,608	829	0	−100	16	6	0
Food stamps	936	506	814	−13	6	4	6
EITC	0	371	946	NA	0	3	7
Federal taxes	−990	−1,534	−1,361	37	−6	−11	−10
Disposable income	16,146	13,764	13,991	−13	100	100	100

Note: Disposable income is wages plus AFDC plus food stamps less Federal income and payroll taxes. Income is a weighted average across States. Dollars are adjusted for inflation using CPI–U. FPL is Federal poverty level.

Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

TABLE 5.—COMPARISON OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER AND TWO CHILDREN WITH CHILD CARE EXPENSES: SELECTED YEARS

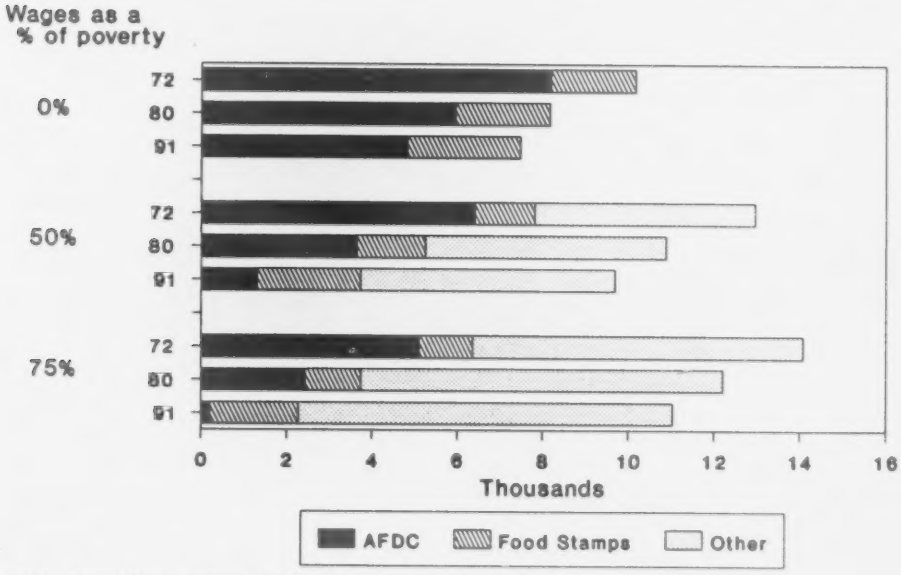
	Wages (as a percent of poverty threshold)					
	0	25	50	75	100	125
Wages (1991 dollars)	0	2,718	5,437	8,155	10,873	13,592
Average disposable income (1991 dollars)						
1972	10,169	11,759	12,869	13,986	14,941	15,863
1976	9,473	11,087	12,359	13,643	14,536	15,209
1980	8,155	9,658	10,818	11,859	12,551	13,131
1984	7,567	8,477	8,678	9,192	9,992	11,284
1986	7,768	9,159	9,485	9,910	10,542	11,709
1988	7,676	9,213	9,655	10,194	11,162	12,615
1989	7,531	9,027	9,504	10,074	11,081	12,555
1990	7,542	8,984	9,469	10,058	11,151	12,658
1991	7,471	8,958	9,524	10,245	11,421	12,915
1991E	7,471	9,167	9,943	10,795	11,971	13,336
Percentage change						
1972–1991	−26.5	−23.8	−26.0	−26.7	−23.6	−18.6
1980–1991	−8.4	−7.2	−12.0	−13.6	−9.0	−1.6
1984–1991	−1.3	5.7	9.7	11.5	14.3	14.5
1988–1991	−2.7	−2.8	−1.4	0.5	2.3	2.4
Number of States which supplement wages with AFDC						
1972	49	49	49	49	49	46
1980	49	49	49	49	44	34
1984	49	49	36	11	6	1
1991	49	49	44	14	4	0
Number of States with disposable income above poverty						
1972	19	30	37	45	49	49
1976	11	26	37	46	49	49
1980	0	9	21	35	42	49
1984	0	1	1	0	1	49
1991	0	3	5	6	49	49
Average tax rate (in percent)						
1972	NA	42	50	53	56	58
1980	NA	45	51	55	60	63
1984	NA	67	80	80	78	73
1991	NA	45	62	66	64	60
1991E	NA	38	55	59	59	57
Percentage of childcare reimbursed						
1972	NA	90	92	94	91	86
1976	NA	91	93	95	89	85
1980	NA	99	94	78	75	68
1984	NA	99	74	46	41	44

TABLE 5.—COMPARISON OF AVERAGE DISPOSABLE INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER AND TWO CHILDREN WITH CHILD CARE EXPENSES: SELECTED YEARS—Continued

	Wages (as a percent of poverty threshold)					
	0	25	50	75	100	125
1991	NA	95	85	51	34	46

NA: Not applicable.
E: 1994 EITC parameters in 1991 dollars.
Note: Disposable income is wages plus AFDC plus food stamps less Federal income and payroll taxes. Income is a weighted average across States. 1991E assumes a fully phased-in EITC. Dollars are adjusted for inflation using CPI–U.
Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

CHART 1. COMPOSITION OF INCOME AT VARIOUS WAGE LEVELS FOR A MOTHER AND TWO CHILDREN FOR SELECTED YEARS (1991 DOLLARS)



Source: Committee on Ways and Means

Table 6 shows the average disposable income for a mother and two children at various wage levels and child support payments across four States. The table also shows the change in the family's disposable income as child support increases from $0 to $2,400 and $2,400 to $4,800, as well as the marginal tax rates as wages increase from $0 to $15,000 over three intervals. For example, a mother in Illinois with no wages who receives $1,200 in child support has a disposable income of $7,644. This mother is made better off by $420 compared to a similar mother receiving no child support benefits. In other words, the mother retains 35 percent of the father's child support with the balance remaining with the State. At most wage levels shown here, particularly for women with no income, higher child support payments yield minimal payoff for the mother, offering little incentive for her to pursue her monthly payments from the absent father. Further, if this same mother obtains a job paying $5,000 per year, she is taxed at a marginal rate of 64 percent on her earnings, yielding little incentive to work.

TABLE 6.—DISPOSABLE INCOME FOR A MOTHER AND TWO CHILDREN AT VARIOUS WAGE LEVELS GIVEN VARIOUS CHILD SUPPORT PAYMENTS, 1991

Wages	Child support payment					Income change from $0 to $2,400	Income change from $2,400 to $4,800
	$0	$1,200	$2,400	$3,600	$4,800		
$0							
Weighted average	7,471	7,936	7,999	8,095	8,294	528	295
Florida	6,546	6,966	6,966	6,966	7,436	420	470
Illinois	7,224	7,644	7,644	7,644	7,640	420	−4
New York	9,114	9,534	9,534	9,534	9,534	420	0
Texas	5,532	6,042	6,042	6,596	7,436	510	1,394
$2,500							
Weighted average	8,940	9,392	9,480	9,659	10,039	540	559
Florida	7,945	8,365	8,365	8,737	9,577	420	1,212
Illinois	8,623	9,043	9,043	9,043	9,577	420	534
New York	10,513	10,933	10,933	10,933	10,933	420	0
Texas	7,021	7,441	7,897	8,737	9,577	876	1,680
$5,000							
Weighted average	9,534	10,074	10,477	11,060	11,765	943	1,288
Florida	8,359	9,199	10,039	10,879	11,719	1,680	1,680
Illinois	9,015	9,435	10,039	10,879	11,719	1,024	1,680
New York	10,905	11,325	11,325	11,243	11,719	420	394
Texas	8,359	9,199	10,039	10,879	11,719	1,680	1,680
$7,500							
Weighted average	10,721	11,442	12,156	12,958	13,798	1,435	1,642
Florida	10,438	11,278	12,118	12,958	13,798	1,680	1,680
Illinois	10,438	11,278	12,118	12,958	13,798	1,680	1,680
New York	11,233	11,541	12,118	12,958	13,798	885	1,680
Texas	10,438	11,278	12,118	12,958	13,798	1,680	1,680

TABLE 6.—DISPOSABLE INCOME FOR A MOTHER AND TWO CHILDREN AT VARIOUS WAGE LEVELS GIVEN VARIOUS CHILD SUPPORT PAYMENTS, 1991—Continued

Wages	Child support payment					Income change from $0 to $2,400	Income change from $2,400 to $4,800
	$0	$1,200	$2,400	$3,600	$4,800		
$10,000							
Weighted average	12,147	12,987	13,827	14,667	15,270	1,680	1,443
Florida	12,147	12,987	13,827	14,667	15,270	1,680	1,443
Illinois	12,147	12,987	13,827	14,667	15,270	1,680	1,443
New York	12,147	12,987	13,827	14,667	15,270	1,680	1,443
Texas	12,147	12,987	13,827	14,667	15,270	1,680	1,443
$12,500							
Weighted average	13,543	14,383	14,867	16,067	17,267	1,324	2,400
Florida	13,543	14,383	14,867	16,067	17,267	1,324	2,400
Illinois	13,543	14,383	14,867	16,067	17,267	1,324	2,400
New York	13,543	14,383	14,867	16,067	17,267	1,324	2,400
Texas	13,543	14,383	14,867	16,067	17,267	1,324	2,400
$15,000							
Weighted average	14,091	15,291	16,491	17,691	18,891	2,400	2,400
Florida	14,091	15,291	16,491	17,691	18,891	2,400	2,400
Illinois	14,091	15,291	16,491	17,691	18,891	2,400	2,400
New York	14,091	15,291	16,491	17,691	18,891	2,400	2,400
Texas	14,091	15,291	16,491	17,691	18,891	2,400	2,400
$0 to $5,000							
Weighted average	59	57	50	41	31		
Florida	64	55	39	22	14		
Illinois	64	64	52	35	18		
New York	64	64	64	66	56		
Texas	43	37	20	14	14		
$5,000 to $10,000							
Weighted average	48	42	33	28	30		
Florida	24	24	24	24	29		
Illinois	37	29	24	24	29		
New York	75	67	50	32	29		
Texas	24	24	24	24	29		
$10,000 to $15,000							
Weighted average	61	54	47	40	28		
Florida	61	54	47	40	28		
Illinois	61	54	47	40	28		
New York	61	54	47	40	28		
Texas	61	54	47	40	28		

Source: Committee on Ways and Means.

Table 7 presents a State-by-State analysis of AFDC benefit level changes between 1972 and 1991 for selected years. Table 8 presents a similar analysis for the combined changes in AFDC and food stamp benefit levels. The examples assume a mother and two children with no wages. The July benefit levels are shown for each year, and all dollar values are shown in 1991 dollars.

For the period 1988 to 1991, only the States of Kentucky and New Mexico experienced real AFDC benefit increases. Twenty-two States experienced real benefit declines of 10 percent or more with the largest decline of 18 percent in the State of Michigan.

TABLE 7.—AFDC BENEFIT LEVELS FOR A MOTHER AND TWO CHILDREN WITH NO EARNINGS, BY STATE

[In 1991 dollars]

State	AFDC benefit levels					Percent change in AFDC			
	1972	1980	1985	1988	1991	1972–91	1980–91	1985–91	1988–91
Alabama	3,548	2,345	1,796	1,632	1,488	−58	−37	−17	−9
Arizona	5,388	4,015	3,546	4,052	4,008	−26	0	13	−1
Arkansas	4,107	3,200	2,922	2,821	2,448	−40	−24	−16	−13
California	10,480	9,401	8,934	9,169	8,328	−21	−11	−7	−9
Colorado	7,458	5,764	5,266	4,923	4,272	−43	−26	−19	−13
Connecticut	11,433	8,069	8,660	8,616	8,160	−29	−10	−6	−5
Delaware	8,049	5,287	4,368	4,412	4,056	−50	−23	−7	−8
District of Columbia	8,443	5,684	4,977	5,241	4,908	−42	−14	−1	−6
Florida	4,731	3,876	3,653	3,803	3,528	−25	−9	−3	−7
Georgia	3,778	3,260	3,394	3,734	3,360	−11	3	−1	−10
Idaho	9,856	6,420	4,627	4,204	3,804	−61	−41	−18	−10
Illinois	8,575	5,724	5,190	4,730	4,404	−49	−23	−15	−7
Indiana	6,571	5,068	3,896	3,983	3,456	−47	−32	−11	−13
Iowa	9,659	7,155	5,479	5,449	5,112	−47	−29	−7	−6
Kansas	10,874	6,857	5,951	5,905	5,064	−53	−26	−15	−14
Kentucky	6,078	3,737	2,998	3,015	3,456	−43	−8	15	15
Louisiana	4,205	3,438	2,892	2,628	2,280	−46	−34	−21	−13
Maine	7,260	5,565	5,628	5,753	5,436	−25	−2	−3	−6
Maryland	6,571	5,366	5,007	5,214	4,872	−26	−9	−3	−7
Massachusetts	10,776	7,115	6,575	7,454	6,468	−40	−9	−2	−13

TABLE 7.—AFDC BENEFIT LEVELS FOR A MOTHER AND TWO CHILDREN WITH NO EARNINGS, BY STATE—Continued

[In 1991 dollars]

State	AFDC benefit levels					Percent change in AFDC			
	1972	1980	1985	1988	1991	1972–91	1980–91	1985–91	1988–91
Michigan (Wayne)	11,071	8,447	5,997	6,030	4,932	−55	−42	−18	−18
Minnesota	10,841	8,288	8,036	7,357	6,384	−41	−23	−21	−13
Mississippi	1,577	1,908	1,461	1,660	1,440	−9	−25	−1	−13
Missouri	4,435	4,929	4,170	3,900	3,504	−21	−29	−16	−10
Montana	7,260	5,148	5,388	4,965	4,680	−36	−9	−13	−6
Nebraska	8,279	6,161	5,327	5,034	4,368	−47	−29	−18	−13
Nevada	6,833	5,207	4,338	4,564	3,960	−42	−24	−9	−13
New Hampshire	10,119	6,877	5,921	6,859	6,192	−39	−10	5	−10
New Jersey	10,184	7,155	6,149	5,864	5,088	−50	−29	−17	−13
New Mexico	5,552	4,373	3,927	3,651	3,888	−30	−11	−1	6
New York (NYC)	12,944	7,831	7,214	7,454	6,924	−47	−12	−4	−7
North Carolina	6,012	3,816	3,744	3,679	3,264	−46	−14	−13	−11
North Dakota	9,922	6,638	5,647	5,131	4,812	−52	−28	−15	−6
Ohio	6,702	5,227	4,414	4,273	4,008	−40	−23	−9	−6
Oklahoma	7,622	5,605	4,292	4,287	4,092	−46	−27	−5	−5
Oregon	11,630	7,712	5,875	5,698	5,520	−53	−28	−6	−3
Pennsylvania	10,414	6,320	5,540	5,559	5,052	−51	−20	−9	−9
Rhode Island	10,316	6,758	6,225	7,150	6,648	−36	−2	7	−7
South Carolina	3,154	2,564	2,846	2,780	2,519	−20	−2	−11	−9
South Dakota	9,626	6,380	5,007	5,062	4,848	−50	−24	−3	−4

AFDC

Each State's AFDC program was modeled using the appropriate need standard, payment standard, ratable reduction (usually 100 percent), and maximum benefit for July of each year from 1972 to 1991 for families of three. Data for 1972 for a family of three was derived by assuming that the relationship in the payment standard for a family of three was the same in 1972 as it was in 1976. Actual data do not exist for three-person families prior to 1976.

AFDC benefits are calculated in the fifth month of eligibility since the majority of female heads with wages are not in their first 4 months of employment. In 1991, the earnings disregard equals $120 a month (a standard work expense disregard of $90 and a $30 income disregard applied during the first 12 months of eligibility).

The benefit in each State for an AFDC family in its fifth month of eligibility is computed through a four-step process, which is described below. Table 9 presents an example of the calculations for a mother and two children in 1991, with earnings at 50 percent of the poverty threshold.

Step 1: Compute monthly earnings. If monthly earnings are greater than 185 percent of the State need standard, the AFDC benefit equals $0 (zero).

Step 2: Compute monthly countable income. Subtract the monthly total disregard of $120, which includes a standard work expense disregard of $90 plus a $30 income disregard.

Step 3: The AFDC benefit is equal to the State payment standard minus countable income, multiplied by the ratable reduction (which equals 1 in most States), subject to the constraint that the benefit may not exceed the State maximum payment.

Step 4: If the calculated AFDC benefit is less than $10 per month, the actual AFDC benefit equals $0 (zero).

The energy disregard is not used in computing AFDC benefits, but is subtracted from AFDC prior to including AFDC income in the food stamp formula.

TABLE 9.—AFDC BENEFIT FORMULAS FOR EACH STATE, FOR A MOTHER AND TV
CHILDREN AND MONTHLY EARNINGS OF $453 IN JULY OF 1991

State	Needs standard	Payment standard	Maximum payment	Rateable reduction	Energy disregard
Alabama	$603	$124	$124	1.0	0
Arizona	928	334	334	1.0	0
Arkansas	705	204	204	1.0	0
California	694	694	694	1.0	0
Colorado	421	421	356	0.8475	0
Connecticut	680	680	680	1.0	0
Delaware	338	338	338	1.0	0
District of Columbia	712	409	409	1.0	0
Florida	928	294	294	1.0	0
Georgia	424	424	280	1.0	0
Idaho	554	317	317	1.0	0
Illinois	811	367	367	1.0	18
Indiana	320	288	288	1.0	0
Iowa	849	426	426	1.0	0
Kansas	422	422	422	1.0	51
Kentucky	526	526	228	0.5500	0
Louisiana	658	190	190	1.0	0
Maine	652	652	453	1.0	0
Maryland	562	406	406	1.0	59
Massachusetts	539	539	539	1.0	0
Michigan (Wayne Co.)	586	411	411	1.0	0
Minnesota	532	532	532	1.0	0
Mississippi	368	368	120	0.6000	0
Missouri	312	292	292	1.0	0
Montana	478	390	390	1.0	0
Nebraska	364	364	364	1.0	0
Nevada	550	330	330	1.0	0
New Hampshire	516	516	516	1.0	0
New Jersey	424	424	424	1.0	25
New Mexico	324	324	324	1.0	0
New York (N.Y.C.)	577	577	577	1.0	53
North Carolina	544	272	272	1.0	0
North Dakota	401	401	401	1.0	0
Ohio	817	334	334	1.0	14
Oklahoma	471	341	341	1.0	0
Oregon	460	460	460	1.0	118
Pennsylvania	614	421	421	1.0	0
Rhode Island	554	554	554	1.0	17
South Carolina	440	440	210	0.4770	0
South Dakota	404	404	404	1.0	0
Tennessee	426	426	185	0.4340	0
Texas	574	184	184	1.0	0
Utah	537	537	402	0.7500	0
Vermont	1,112	673	673	1.0	0
Virginia	393	354	354	1.0	0
Washington	983	531	531	1.0	56
West Virginia	497	249	249	1.0	0

TABLE 9.—AFDC BENEFIT FORMULAS FOR EACH STATE, FOR A MOTHER AND TWO CHILDREN AND MONTHLY EARNINGS OF $453 IN JULY OF 1991—Continued

State	Needs standard	Payment standard	Maximum payment	Rateable reduction	Energy disregard	Monthly AFDC benefit
Wisconsin	647	517	517	1.0	0	184
Wyoming	674	360	360	1.0	0	27

Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

Food stamps

Given a wage and AFDC benefit level, the food stamp benefit is calculated using the July food stamp parameters for the designated year, which vary by family size (see table 10).

Earned income tax credit

The earned income tax credit is calculated as a percentage of earnings up to a certain amount ($7,140 in 1991). For 1991, the basic EITC rate is 17.3 percent for taxpayers with more than one qualifying child. For 1991, the maximum basic EITC for a mother and two children is therefore $1,235 (17.3 percent of $7,140).

Federal income taxes

Federal income taxes are calculated using the head of household tax rates, with a standard deduction and exemptions equal to the number of family members.

Federal payroll taxes

Only FICA payroll taxes are included. The tax rate percentage is 5.20, 5.85, 6.13, 6.70, 7.05, 7.15, 7.51, 7.51, and 7.65 of wages in 1972, 1976, 1980, 1984, 1985, 1986, 1987, 1988, 1989, and 1990–91 respectively.

Day care expenses

Day care expenses are assumed to be 20 percent of wages up to a maximum of $100 per month (1979 dollars). This was the average deduction in AFDC for those families with child care expenses. This maximum was then inflated or deflated to the appropriate year using the Consumer Price Index.

Additional comments

The above methodology did not incorporate any other sources of income or expenses although it is possible that these families could have other income sources. The value of health care benefits—in the form of Medicaid or private health insurance—has not been included. A low-income energy assistance grant also was not assumed. However, several States beginning in 1984 (Maryland, New York, Oregon, Rhode Island, and Washington) have designated a portion of their AFDC grant as energy assistance and this is disregarded in calculating the food stamp benefit. The size of the benefit does not affect the family's eligibility for more energy assistance

and the primary effect is to increase food stamp benefits. This energy disregard was modeled when food stamp benefits were calculated.

The section above examines income in the one month of July which is the month in which AFDC benefits are usually increased. The benefit levels are then annualized to examine Federal tax policy. To some extent, this is a simplification of the real world. In some States, AFDC benefits vary by season. Food stamp benefit calculations are different at different times of the year. However, there is no reason to believe that annualizing July data presents a misleading picture of Federal and State policy changes between 1972 and 1991.

Nominal dollars are converted to constant dollars using the CPI-U price index, the same index used to index the poverty thresholds.

Tennessee	3,778	2,425	2,329	2,392	2,219	−41	−8	−5	−7
Texas	3,811	2,306	2,542	2,545	2,208	−42	−4	−13	−13
Utah	9,034	7,155	5,723	5,200	4,824	−47	−33	−16	−7
Vermont	10,940	9,779	8,873	8,699	8,076	−26	−17	−9	−7
Virginia	8,805	5,128	5,388	4,896	4,248	−52	−17	−21	−13
Washington	10,776	9,103	7,245	6,804	6,372	−41	−30	−12	−6
West Virginia	6,768	4,094	3,790	3,444	2,988	−56	−27	−21	−13
Wisconsin	11,728	8,825	8,112	7,150	6,204	−47	−30	−24	−13
Wyoming	8,049	4,571	5,479	4,979	4,320	−46	−5	−21	−13
Average	7,878	5,675	5,036	4,975	4,541	−42	−20	−10	−9
Weighted Average	8,178	5,948	5,345	5,321	4,823	−41	−19	−10	−9

Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

TABLE 8.—AFDC AND FOOD STAMPS FOR A MOTHER AND TWO CHILDREN WITH NO EARNINGS, BY STATE

[In 1991 dollars]

State	AFDC and food stamp benefits					Percent change in AFDC and food stamps			
	1972	1980	1985	1988	1991	1972–91	1980–91	1985–91	1988–91
Alabama	6,899	5,625	4,962	4,785	4,812	−31	−14	−3	1
Arizona	8,187	6,805	6,388	6,753	6,882	−16	1	8	2
Arkansas	7,290	6,235	5,951	5,891	5,772	−21	−7	−3	−2
California	11,752	10,576	10,159	10,335	9,906	−16	−6	−2	−4
Colorado	9,636	8,030	7,592	7,363	7,067	−27	−12	−7	−4
Connecticut	12,419	9,643	9,968	9,948	9,788	−21	2	−2	−2
Delaware	10,050	7,696	6,963	7,005	6,916	−31	−10	−1	−1
District of Columbia	10,326	7,794	7,389	7,585	7,512	−27	−6	2	−1
Florida	7,727	6,708	6,462	6,579	6,546	−15	−2	1	−1
Georgia	7,060	6,277	6,281	6,530	6,428	−9	2	2	−2
Idaho	11,315	8,489	7,144	6,859	6,739	−40	−21	−6	−2
Illinois	10,418	8,002	7,538	7,302	7,224	−31	−10	−4	−1
Indiana	9,015	7,543	6,633	6,705	6,496	−28	−14	−2	−3
Iowa	11,177	9,003	7,741	7,731	7,655	−32	−15	−1	−1
Kansas	12,028	8,795	8,071	8,274	7,805	−35	−11	−3	−6
Kentucky	8,670	6,610	6,004	6,027	6,496	−25	−2	8	8
Louisiana	7,359	6,402	5,930	5,756	5,604	−24	−12	−5	−3
Maine	9,498	7,890	7,845	7,944	7,882	−17	0	0	−1
Maryland	9,015	7,751	7,680	7,811	7,699	−15	−1	0	−1
Massachusetts	11,959	8,976	8,508	9,134	8,604	−28	−4	1	−6

Michigan (Wayne)	12,166	9,908	8,103	8,137	7,529	−38	−24	−7	−7
Minnesota	12,005	9,796	9,531	9,067	8,545	−29	−13	−10	−6
Mississippi	5,172	5,187	4,627	4,813	4,764	−8	−8	3	−1
Missouri	7,520	7,445	6,825	6,646	6,529	−13	−12	−4	−2
Montana	9,498	7,598	7,677	7,392	7,352	−23	−3	−4	−1
Nebraska	10,211	8,308	7,634	7,440	7,134	−30	−14	−7	−4
Nevada	9,199	7,640	6,942	7,111	6,848	−26	−10	−1	−4
New Hampshire	11,499	8,809	8,050	8,718	8,411	−27	−5	4	−4
New Jersey	11,545	9,003	8,210	8,125	7,728	−33	−14	−6	−5
New Mexico	8,302	7,056	6,654	6,472	6,798	−18	−4	2	5
New York (NYC)	13,882	9,476	9,197	9,354	9,114	−34	−4	−1	−3
North Carolina	8,624	6,666	6,526	6,492	6,361	−26	−5	−3	−2
North Dakota	11,361	8,642	7,858	7,508	7,445	−34	−14	−5	−1
Ohio	9,107	7,654	6,995	6,966	6,882	−24	−10	−2	−1
Oklahoma	9,751	7,918	6,910	6,917	6,991	−28	−12	1	1
Oregon	12,568	9,393	8,557	8,394	8,365	−33	−11	−2	0
Pennsylvania	11,706	8,419	7,783	7,808	7,613	−35	−10	−2	−2
Rhode Island	11,637	8,725	8,341	8,992	8,791	−24	1	5	−2
South Carolina	6,623	5,790	5,898	5,862	5,839	−12	1	−1	0
South Dakota	11,154	8,461	7,411	7,460	7,470	−33	−12	1	0
Tennessee	7,060	5,692	5,494	5,546	5,543	−21	−3	1	0
Texas	7,083	5,585	5,685	5,698	5,532	−22	−1	−3	−3
Utah	10,740	9,003	7,911	7,556	7,453	−31	−17	−6	−1
Vermont	12,074	10,840	10,117	10,006	9,730	−19	−10	−4	−3
Virginia	10,579	7,584	7,677	7,343	7,050	−33	−7	−8	−4
Washington	11,959	10,367	9,123	8,870	8,738	−27	−16	−4	−1
West Virginia	9,153	6,861	6,558	6,327	6,168	−33	−10	−6	−3

TABLE 8.—AFDC AND FOOD STAMPS FOR A MOTHER AND TWO CHILDREN WITH NO EARNINGS, BY STATE—Continued

[In 1991 dollars]

State	AFDC and food stamp benefits					Percent change in AFDC and food stamps			
	1972	1980	1985	1988	1991	1972–91	1980–91	1985–91	1988–91
Wisconsin	12,666	10,172	9,584	8,921	8,419	−34	−17	−12	−6
Wyoming	10,050	7,195	7,741	7,402	7,100	−29	−1	−8	−4
Average	9,933	7,964	7,445	7,422	7,267	−27	−9	−2	−2
Weighted average	10,169	8,155	7,672	7,676	7,471	−27	−8	−3	−3

Source: Ways and Means Committee staff based upon CRS State AFDC benefit levels.

III. MARRIAGE PENALTIES [1]

Under current law, low-income welfare recipients often face stiff penalties if they choose to marry. Low-income women and their spouses actually lose thousands of dollars of disposable income after marrying. This loss occurs because assistance provided from tax and welfare programs is reduced or phased out at a rapid rate as income rises. The economic incentive is to remain unmarried and live together rather than experience a significant loss in benefits by legally becoming married. The following examples assume a marriage to someone other than the father of the two children.

Table 1 illustrates how a low-income mother with two children living in the State of Illinois is penalized for marriage. If this mother with no earnings (column 1) marries a single male with wages of $10,000 (column 2) and no employer-provided medical insurance, their combined disposable income totals $14,953. The marriage results in a $2,880, or 16 percent reduction, in their combined disposable incomes before marriage ($17,833). The marriage penalty for this mother increases to $6,211 (a 29 percent loss) and $8,204 (a 32 percent loss) as the male's disposable income rises to $15,000 and $20,000, respectively.

If the same mother with increased earnings of $10,000 (table 2) marries a man who also earns $10,000, their total disposable income falls $3,149 or 17 percent from $18,713 to $15,564. The penalty resulted from a decline in the mother's EITC benefits from $1,235 to $154, and an elimination of her food stamp benefits.

Table 3 summarizes different marriage penalties in three States with varying aid to families with dependent children (AFDC) benefit levels: Illinois, New York, and Texas. Marriage penalties in the State of New York, which provides high AFDC benefit levels, are remarkably large. For example, a mother with two children and $5,000 of earnings that marries a male with $15,000 of earnings experience a $10,200 or 38 percent reduction in their combined disposable incomes before marriage. Texas, which has low AFDC benefit levels, has high marriage penalties even as the couple's combined income rises to $30,000.

Table 4 is identical to table 3 except it is assumed that the male has a job with health insurance coverage equivalent to Medicaid. The marriage penalties are much less severe for mothers with $0 and $5,000 of earnings when health insurance is not factored into the equation. This difference highlights the strong significance of medical insurance for low-income families.

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[1] Based upon a similar analysis by Steuerle, Eugene, and Juffras, Jason. "A $1,000 Tax Credit for Every Child: A Base of Reform for the Nation's Tax, Welfare, and Health Systems." Urban Institute, June 1991.

Methodology

All calculations are based on a computer model developed by committee staff which is described in full in Appendix G (pp. 1091–1094) of the 1991 Green Book. The AFDC program was modeled for each State using the appropriate need standard, payment standard, ratable reduction, and maximum benefit for July for a family of three. Disposable income was calculated from AFDC benefits, earnings, food stamps, EITC, Medicaid, Federal taxes, Social Security, work expenses (assumed to be $25 per month for transportation), and child care expenses (assumed to be 20 percent of the mother's income). The child care credit was assumed in calculating Federal taxes. Upon marriage, the male assumes a step-father relationship to the two children and step-father rules are followed in computing AFDC benefits.

IV. ANTIPOVERTY EFFECTIVENESS OF VARIOUS CASH, NEAR-CASH, AND NONCASH INCOME SOURCES

Methodology

This section explores the effectiveness of various income sources in addressing poverty. One way of assessing the antipoverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received. The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of Social Security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive Social Security with the number of poor remaining after Social Security income is counted.

A second way of assessing the effectiveness of various income sources upon poverty is to estimate the degree to which those sources reduce the gap between a poor family's income and the poverty threshold. This concept is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Tables 1 through 5 examine the antipoverty effectiveness of cash and noncash transfers from 1979 to 1990. These tables were prepared by the Congressional Budget Office using Census Bureau data and present information for all individuals in various types of living arrangements.

All statistics are based on Current Population Survey (CPS) data for the relevant year, unadjusted for possible underreporting. However, asset income data have been adjusted for 1979 through 1983 to make them comparable to data for more recent years. This adjustment involved applying a more detailed methodology to impute asset income to people who reported receiving asset income but did not report the amount received. The effect of the changes is to increase incomes, particularly for the elderly. For the entire population, the poverty rate is reduced by about 0.1 percentage point in each year, 1979 through 1983. It was not possible, however, to adjust the data from earlier years to reflect the other change made in 1984—the revised weighting of persons of Hispanic origin.

Federal personal income taxes and Social Security employee payroll taxes were estimated with a microsimulation model using tax schedules and laws in effect in each year. In order to make taxes consistent with the incomes reported in the CPS, no adjustments were made for CPS underreporting and taxes were not estimated for capital gains or other taxable income not reported in the CPS.

Statistics of Income (SOI) data were used to assign itemized deductions and Individual Retirement Account (IRA) contributions to tax filing units, while child care expenses were estimated based on data from the 1979 Panel Study of Income Dynamics (PSID). Payroll tax estimates were based on self-employment income and wages and salaries of all workers except Federal, railroad, and some state employees.

All valuations of in-kind transfers are those estimated by the Bureau of the Census using a *market value* valuation technique.[1] The market value generally attempts to measure the private market cost of benefits provided in-kind. Food stamps are assigned their value, while school lunches are assigned the average amount of Federal subsidy per child. Housing assistance is valued as the difference between the estimated market rent (based on the American Housing Survey) and the reduced rent paid by subsidized households.

Poverty under six different income concepts is measured. "Cash income before transfers" is all cash income prior to any benefits from government programs. This would include all earnings, pension income, income from savings, self-employment income, etc. "Plus social insurance" adds to cash income all benefits from social insurance (except Social Security) programs, such as workers' compensation and unemployment compensation. "Plus Social Security" adds to cash income and social insurance income benefits from the Social Security programs. "Plus means-tested cash transfers" adds to cash income and social insurance income all means-tested transfer income such as aid to families with dependent children, supplemental security income, and general assistance. "Plus food and housing" adds to cash, social insurance and means-tested cash income all means-tested in-kind transfers received for food and housing. This would include food stamps, housing programs and school lunch programs. Benefits are valued using the *market value* method. "Less Federal taxes" subtracts from income Federal income taxes and the employee portion of Federal payroll taxes.

Results

Table 1 shows that before any governmental transfers, 50.9 million individuals would have been poor in 1990. With social insurance benefits (including Social Security), 35.9 million individuals are poor, a reduction of 14.9 million. Means-tested cash and in-kind transfers reduce the poverty count by an additional 6.6 million individuals.

In 1979, 15.0 percent of all poor individuals were removed from poverty due to means-tested transfers and Federal tax policy. In 1983, this had declined to 5.7 percent. Beginning in 1984, the downward trend reversed itself and the percentage increased to 6.6 percent in 1986. By 1990, largely due to the effect of the 1986 Tax Reform Act, which reduced tax liability for low-income families, the percentage increased even further to 10.7 percent.

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[1] See Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," Technical Paper 50, March 1982, for a discussion of the estimation methods. Technical papers 51, 52, 55, and 56 provide data for all years from 1979 through 1985.

TABLE 10.—SUMMARY OF KEY MONTHLY FOOD STAMP PARAMETERS FOR JULY OF EACH MODEL YEAR

	1972	1976	1980	1984	1985	1986	1987	1988	1989	1990	1991
Maximum allotment:											
Family of 3	92	130	165	199	208	211	214	228	236	260	277
Family of 4	112	166	209	253	264	268	272	290	300	331	352
Standard deduction	[1] 40	[1] 55	75	89	95	98	99	102	106	112	116
Work expenses (as percent of wages)	([2])	([2])	20	18	18	20	20	20	20	20	20
Monthly shelter deduction	None	None	45	62.5	67	73.5	74.5	82	85	88.5	93
Countable income limit:											
Family of 3	NA	$433	$520	$705	$738	$760	$775	$775	$808	$839	$880
Family of 4	$390	$570	$621	$825	$888	$917	$934	$934	$971	$1,009	$1,059
Gross income limit:											
Family of 3	None	None	None	$917	$959	$988	$1,008	$1,008	$1,050	$1,090	$1,144
Family of 4	None	None	None	$1,073	$1,154	$1,192	$1,214	$1,214	$1,263	$1,311	$1,376

[1] In addition, the monthly purchase requirement table had a $30 deduction amount built into the table. These amounts include the shelter deduction.
[2] Work expense deduction in 1972 and 1976 equals actual taxes plus 10 percent of wages, up to $275 annually in 1972 and $375 annually in 1976.

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TABLE 1.—MARRIAGE PENALTIES FOR A MOTHER WITH TWO CHILDREN AND NO EARNINGS LIVING IN THE STATE OF ILLINOIS, 1991

	Mother of two, $0 earnings	Single male earning			Marriage, family of four, mother's earnings = $0		
		1st	2d	3d	1st	2d	3d
Earning	0	$10,000	$15,000	$20,000	$10,000	$15,000	$20,000
EITC	0	0	0	0	1,235	771	154
AFDC	$4,404	0	0	0	1,220	0	0
Food stamps	2,820	0	0	0	2,275	1,376	0
Medicaid	2,342	0	0	0	1,288	0	0
Social Security	0	(765)	(1,148)	(1,530)	(765)	(1,148)	(1,530)
Federal income tax	0	(668)	(1,418)	(2,168)	0	(210)	(960)
Work expenses[1]	0	(300)	(300)	(300)	(300)	(300)	(300)
Child care expenses[2]	0	0	0	0	0	0	0
Disposable income	9,566	8,267	12,134	16,002	14,953	15,489	17,364
Marriage penalty, loss of income					2,880	6,211	8,204
Percent change					−16	−29	−32

[1]Assumes $25 per month for public transportation.
[2]Assumes 20 percent of female's wages for child care expenses.

TABLE 2.—MARRIAGE PENALTIES FOR A MOTHER WITH TWO CHILDREN WITH EARNINGS OF $10,000 LIVING IN THE STATE OF ILLINOIS, 1991

	Mother of two, $10,000 earnings	Single male earning			Marriage, family of four, mother's earnings = $10,000		
		1st	2d	3d	1st	2d	3d
Earnings	$10,000	$10,000	$15,000	$20,000	$20,000	$25,000	$30,000
EITC	1,235	0	0	0	154	0	0
AFDC	0	0	0	0	0	0	0
Food stamps	2,276	0	0	0	0	0	0
Medicaid	0	0	0	0	0	0	0
Social Security	(765)	(765)	(1,148)	(1,530)	(1,530)	(1,913)	(2,295)
Federal income tax	0	(668)	(1,418)	(2,168)	(460)	(1,270)	(2,060)
Work expenses[1]	(300)	(300)	(300)	(300)	(600)	(600)	(600)
Child care expenses[2]	(2,000)	0	0	0	(2,000)	(2,000)	(2,000)
Disposable income	10,446	8,267	12,134	16,002	15,564	19,217	23,045
Marriage penalty, loss of income					3,149	3,363	3,403
Percent change					−17	−15	−13

[1]Assumes $25 per month for public transportation.
[2]Assumes 20 percent of female's wages for child care expenses.

TABLE 3.—MARRIAGE PENALTIES FOR A MOTHER WITH TWO CHILDREN (WITH MEDICAID) TO A MALE WITH VARIOUS LEVELS OF EARNINGS IN THREE STATES, 1991

	Female's earnings = $0 [1]			Female's earnings = $5,000 [2]			Female's earnings = $10,000 [3]		
	1st	2d	3d	1st	2d	3d	1st	2d	3d
Male earnings	$10,000	$15,000	$20,000	$10,000	$15,000	$20,000	$10,000	$15,000	$20,000
Marriage penalty:									
Dollar loss: [4]									
Illinois	2,880	6,211	8,204	4,372	6,624	6,809	3,149	3,363	3,403
New York	4,946	9,787	11,780	7,948	10,200	10,385	7,176	7,390	7,430
Texas	4,077	5,197	7,194	926	3,178	3,363	3,149	3,363	3,403
Percentage loss:									
Illinois	16	29	32	23	29	25	17	15	13
New York	23	39	40	35	38	34	32	28	24
Texas	24	25	29	6	16	14	17	15	13

[1] Assumes mother receives Medicaid in all three states.
[2] Assumes mother receives Medicaid in Illinois and New York.
[3] Assumes mother receives Medicaid in New York.
[4] Loss of disposable income due to marriage.

TABLE 4.—MARRIAGE PENALTIES FOR A MOTHER WITH TWO CHILDREN (WITH NO MEDICAID) TO A MALE WITH VARIOUS LEVELS OF EARNINGS IN THREE STATES, 1991

	Female's earnings = $0			Female's earnings = $5,000			Female's earnings = $10,000		
	1st	2d	3d	1st	2d	3d	1st	2d	3d
Male earnings	$10,000	$15,000	$20,000	$10,000	$15,000	$20,000	$10,000	$15,000	$20,000
Marriage penalty:									
Dollar loss: [1]									
Illinois	1,826	3,869	5,862	2,030	4,282	4,467	3,149	3,363	3,403
New York	2,951	5,759	7,752	3,920	6,172	6,357	3,148	3,362	3,402
Texas	1,053	2,173	4,170	926	3,178	3,363	3,149	3,363	3,403
Percentage loss:									
Illinois	12	20	25	12	21	18	17	15	13
New York	17	27	31	21	27	24	17	15	13
Texas	8	12	19	6	16	14	17	15	13

[1] Loss of disposable income due to marriage.

Tables 2, 3, and 4 display the effectiveness of social insurance and means-tested programs in eliminating poverty among individuals in families with children. Table 2 presents information on individuals in all families with children under 18 years old; table 3 presents information on individuals in families that are headed by an unmarried individual and have children under 18 years old; and table 4 presents information on individuals in married-couple families with children under 18 years old. Table 3 shows that in 1979 approximately 30 percent of individuals in single-parent families were removed from poverty as the result of means-tested transfers, food and housing benefits, and Federal tax policy. By 1990, this had declined to 20 percent. Similarly, the percentage reduction in the poverty gap due to means-tested transfers and Federal tax policy fell from 56 percent to 53 percent.

Table 5 displays the effectiveness of social insurance and means-tested transfer programs in eliminating poverty among the elderly over the 1979–1990 period. The table shows that over this period the antipoverty effectiveness of both social insurance and means-tested programs generally improved for the elderly: despite a significant increase in the overall elderly population, the number of individuals in poverty actually declined, and the poverty gap remained fairly level. The numbers of individuals removed from poverty by social insurance programs increased from 7.1 to 8.7 million between 1979 and 1990. The percentage of elderly individuals removed from poverty due to social insurance programs increased from 68 percent to 73 percent from 1979 to 1990. The number removed from poverty by means-tested transfer programs increased from 716,000 to 801,000 over the same period.

Chart 1 below is based upon table 2. The chart illustrates the effects means-tested benefits and Federal taxes have on removing individuals from poverty living in families with children, for each year from 1979 to 1990. The top line shows the number of individuals removed from poverty due to means-tested benefits. The bottom line illustrates the number of individuals added back into poverty after means-tested benefits and Federal income and payroll taxes. The difference between those lines (the middle line) for a given year represents the total number of individuals removed from poverty after means-tested benefits have been received and Federal taxes have been paid. For example, in 1990, the total number removed from poverty due to means-tested cash, food and housing benefits was 4.7 million. Federal taxes added 472,000 of those individuals back into poverty, leaving the net number removed from poverty at 4.2 million.

CHART 1. EFFECTS OF MEANS-TESTED PROGRAMS AND TAXES ON INDIVIDUALS IN POVERTY, 1979–90

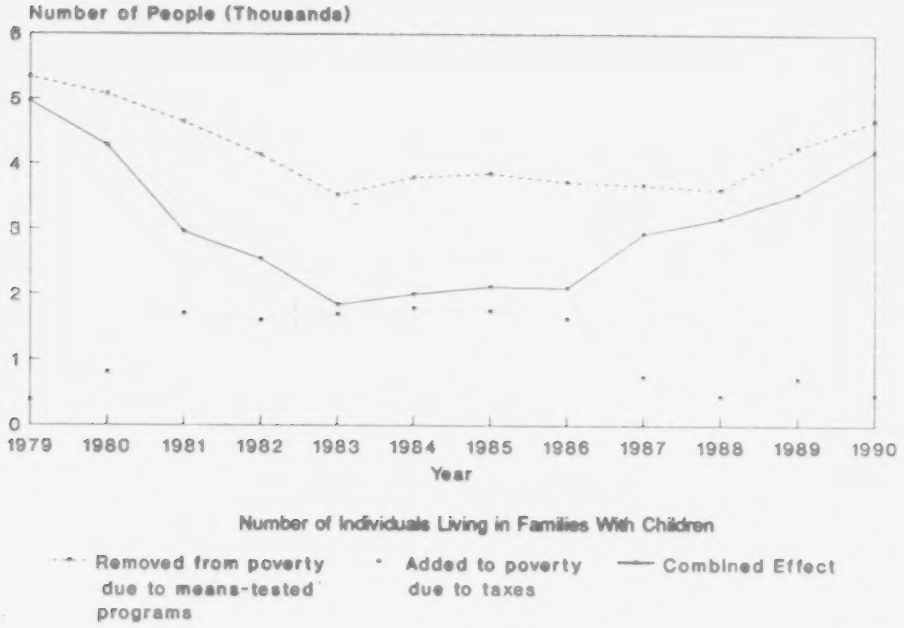

TABLE 1.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL INDIVIDUALS IN FAMILIES OR LIVING ALONE, 1979, 1981–90

	1979	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Number of poor individuals (thousands):											
Cash income before transfers	41,695	49,184	51,942	52,700	50,943	50,462	49,702	49,679	49,145	49,052	50,851
Plus social insurance (other than Social Security)	39,835	46,974	48,989	49,468	48,690	48,208	47,466	47,731	47,297	47,377	49,052
Plus Social Security	27,846	33,909	36,204	36,928	35,702	35,171	34,534	34,380	33,850	33,825	35,928
Plus means-tested cash transfers (official definition)	25,201	31,567	34,200	35,030	33,700	33,064	32,370	32,546	31,745	31,534	33,585
Plus food and housing benefits	20,931	27,703	30,493	31,697	30,103	29,489	28,988	29,004	28,357	27,642	29,377
Less Federal taxes	21,606	29,983	32,549	33,923	32,529	31,840	31,249	30,400	29,214	28,941	30,465
Number of individuals removed from poverty due to (thousands):											
Social insurance (other than Social Security)	1,860	2,210	2,953	3,232	2,253	2,254	2,236	1,948	1,848	1,675	1,799
Social insurance (including Social Security)	13,849	15,275	15,738	15,772	15,241	15,291	15,168	15,299	15,295	15,227	14,923
Means-tested cash, food, and housing benefits	6,915	6,206	5,711	5,231	5,599	5,682	5,546	5,376	5,493	6,183	6,551
Federal taxes	−675	−2,280	−2,056	−2,226	−2,426	−2,351	−2,261	−1,396	−857	−1,299	−1,088
Percent of individuals removed from poverty due to:											
Social insurance (including Social Security)	33.2	31.1	30.3	29.9	29.9	30.3	30.5	30.8	31.1	31.0	29.3
Means-tested cash, food and housing benefits and Federal taxes	15.0	8.0	7.0	5.7	6.2	6.6	6.6	8.0	9.4	10.0	10.7
Poverty gap (millions of 1987 dollars):											
Cash income before transfers	100,276	118,235	123,562	126,720	122,517	122,327	122,905	124,246	121,956	120,028	124,400

Plus social insurance (other than Social Security)	93,481	110,471	114,739	116,617	114,939	115,427	116,299	117,820	116,403	114,336	118,308
Plus Social Security	51,881	63,763	68,480	71,431	69,047	68,280	68,678	69,419	67,000	65,933	70,501
Plus means-tested cash transfers (official definition)	35,981	46,782	51,287	53,231	50,671	50,480	50,987	51,650	50,184	49,192	52,539
Plus food and housing benefits	28,176	37,441	40,687	42,409	40,021	39,929	40,316	40,434	38,962	38,059	39,727
Less Federal taxes	28,628	38,734	42,119	43,988	41,747	41,601	41,948	41,394	39,772	38,853	40,561
Percentage reduction in poverty gap due to:											
Social insurance (including Social Security)	48.3	46.1	44.6	43.6	43.6	44.2	44.1	44.1	45.1	45.1	43.3
Means-tested cash, food and housing benefits and Federal taxes	23.2	22.8	21.3	21.7	22.3	21.8	21.7	22.6	22.3	22.6	24.1
Poverty rate (in percent):											
Cash income before transfers	19.1	21.7	22.6	22.8	21.8	21.3	20.8	20.6	20.2	19.9	20.5
Plus social insurance (other than Social Security)	18.3	20.7	21.4	21.4	20.8	20.4	19.9	19.8	19.4	19.3	19.7
Plus Social Security	12.8	14.9	15.8	15.9	15.3	14.9	14.5	14.3	13.9	13.8	14.4
Plus means-test cash transfers (official definition)	11.6	13.9	14.9	15.1	14.4	14.0	13.6	13.5	13.0	12.8	13.5
Plus food and housing benefits	9.6	12.2	13.3	13.7	12.9	12.5	12.2	12.0	11.6	11.2	11.8
Less Federal taxes	9.9	13.2	14.2	14.6	13.9	13.5	13.1	12.6	12.0	11.8	12.3

Source: Congressional Budget Office and Committee staff.

TABLE 2.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL INDIVIDUALS IN FAMILIES WITH RELATED CHILDREN LESS THAN 18, 1979, 1981–90

	1979	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Number of poor individuals (thousands):											
Cash income before transfers	21,510	26,446	28,759	28,935	27,277	26,639	26,121	25,735	25,305	25,190	26,674
Plus social insurance (other than Social Security)	20,559	25,204	26,895	26,948	26,010	25,368	24,824	24,689	24,257	24,341	25,759
Plus Social Security	18,599	23,111	25,036	25,255	24,408	23,701	23,292	23,222	22,504	22,704	24,394
Plus means-tested cash transfers (official definition)	16,808	21,553	23,796	24,246	23,301	22,547	22,111	22,157	21,299	21,408	22,832
Plus food and housing benefits	13,261	18,465	20,903	21,736	20,616	19,847	19,572	19,548	18,901	18,449	19,725
Less Federal taxes	13,638	20,159	22,503	23,420	22,405	21,586	21,199	20,295	19,352	19,163	20,197
Number of individuals removed from poverty due to (thousands):											
Social insurance (other than Social Security)	951	1,242	1,864	1,987	1,267	1,271	1,297	1,046	1,048	849	915
Social insurance (including Social Security)	2,911	3,335	3,723	3,680	2,869	2,938	2,829	2,513	2,801	2,486	2,280
Means-tested cash, food, and housing benefits	5,338	4,646	4,133	3,519	3,792	3,854	3,720	3,674	3,603	4,255	4,669
Federal taxes	−377	−1,694	−1,600	−1,684	−1,789	−1,739	−1,627	−747	−451	−714	−472
Percent of individuals removed from poverty due to:											
Social insurance (including Social Security)	13.5	12.6	12.9	12.7	10.5	11.0	10.8	9.8	11.1	9.9	8.5
Means-tested cash, food and housing benefits and Federal taxes	23.1	11.2	8.8	6.3	7.3	7.9	8.0	11.4	12.5	14.1	15.7
Poverty gap (millions of 1987 dollars):											
Cash income before transfers	37,976	46,721	51,466	52,785	49,614	48,558	48,472	48,668	47,063	45,501	48,436

Plus social insurance (other than Social Security)	35,801	43,606	47,604	48,349	46,705	46,090	45,998	46,643	44,945	43,431	46,122
Plus Social Security	30,505	37,860	42,230	43,154	41,741	40,861	41,006	41,643	39,672	38,404	41,753
Plus means-tested cash transfers (official definition)	19,610	26,114	30,135	30,612	29,339	28,633	28,609	29,325	28,343	27,288	29,404
Plus food and housing benefits	13,208	18,535	21,296	21,603	20,564	19,874	19,782	20,042	19,182	18,315	19,138
Less Federal taxes	13,202	19,068	21,953	22,353	21,397	20,611	20,471	20,121	19,109	18,263	19,047
Percentage reduction in poverty gap due to:											
Social insurance (including Social Security)	19.7	19.0	17.9	18.2	15.9	15.9	15.4	14.4	15.7	15.6	13.8
Means-tested cash, food and housing benefits and Federal taxes	45.6	40.2	39.4	39.4	41.0	41.7	42.4	44.2	43.7	44.3	46.9
Poverty rate (in percent):											
Cash income before transfers	16.5	20.0	21.7	21.9	20.7	20.0	19.5	19.2	18.8	18.6	19.5
Plus social insurance (other than Social Security)	15.8	19.0	20.3	20.4	19.7	19.0	18.5	18.4	18.0	18.0	18.8
Plus Social Security	14.3	17.4	18.9	19.2	18.5	17.8	17.4	17.3	16.7	16.8	17.8
Plus means-tested cash transfers (official definition)	12.9	16.3	17.9	18.4	17.6	16.9	16.5	16.5	15.8	15.8	16.7
Plus food and housing benefits	10.2	13.9	15.7	16.5	15.6	14.9	14.6	14.6	14.0	13.6	14.4
Less Federal taxes	10.5	15.2	17.0	17.8	17.0	16.2	15.8	15.1	14.4	14.2	14.8

Source: Congressional Budget Office and Committee staff.

TABLE 3.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR INDIVIDUALS IN ALL UNITS WITH AN UNMARRIED HEAD AND RELATED CHILDREN LESS THAN 18, 1979, 1981–90

	1979	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Number of poor individuals (thousands):											
Cash income before transfers	11,480	12,915	13,594	13,751	13,774	13,685	14,069	14,259	14,149	14,074	15,110
Plus social insurance (other than Social Security)	11,271	12,689	13,284	13,501	13,513	13,391	13,790	14,040	13,928	13,820	14,841
Plus Social Security	10,367	11,858	12,579	12,611	12,786	12,581	13,143	13,306	13,167	13,040	14,203
Plus means-tested cash transfers (official definition)	9,230	10,987	11,903	12,063	12,132	11,943	12,487	12,661	12,514	12,388	13,324
Plus food and housing benefits	6,901	9,191	10,312	10,531	10,473	10,418	10,879	10,963	10,947	10,636	11,313
Less Federal taxes	6,925	9,423	10,611	10,800	10,695	10,670	11,217	10,977	10,923	10,648	11,234
Number of individuals removed from poverty due to (thousands):											
Social insurance (other than Social Security)	209	226	310	250	261	294	279	219	221	254	269
Social insurance (including Social Security)	1,113	1,057	1,015	1,140	988	1,104	926	953	982	1,034	907
Means-tested cash, food and housing benefits	3,466	2,667	2,267	2,080	2,313	2,163	2,264	2,343	2,220	2,404	2,890
Federal taxes	−24	−232	−299	−269	−222	−252	−338	−14	24	−12	79
Percent of individuals removed from poverty due to:											
Social insurance (including Social Security)	9.7	8.2	7.5	8.3	7.2	8.1	6.6	6.7	6.9	7.3	6.0
Means-tested cash, food and housing benefits and Federal taxes	30.0	18.9	14.5	13.2	15.2	14.0	13.7	16.3	15.9	17.0	19.6
Poverty gap (millions of 1987 dollars):											
Cash income before transfers	24,431	28,350	30,452	31,519	30,680	30,722	31,942	32,661	32,142	31,018	33,430

Plus social insurance (other than Social Security)	23,742	27,550	29,463	30,358	29,687	29,822	31,216	31,975	31,627	30,349	32,541
Plus Social Security	20,952	24,657	26,597	27,361	27,046	26,790	28,518	29,172	28,632	27,533	30,000
Plus means-tested cash transfers (official definition)	12,014	15,448	17,309	17,976	17,580	17,562	18,815	19,358	19,481	18,844	20,366
Plus food and housing benefits	7,446	9,960	11,073	11,682	11,341	11,181	12,119	12,304	12,401	12,003	12,312
Less Federal taxes	7,392	10,008	11,157	11,756	11,440	11,263	12,221	12,175	12,282	11,861	12,167
Percentage reduction in poverty gap due to:											
Social insurance (including Social Security)	14.2	13.0	12.7	13.2	11.8	12.8	10.7	10.7	10.9	11.2	10.3
Means-tested cash, food and housing benefits and Federal taxes	55.5	51.7	50.7	49.5	50.9	50.5	51.0	52.0	50.9	50.5	53.3
Poverty rate (in percent):											
Cash income before transfers	50.0	52.1	54.5	53.8	51.5	50.7	51.4	50.9	49.5	48.1	49.5
Plus social insurance (other than Social Security)	49.1	51.2	53.2	52.8	50.5	49.6	50.3	50.1	48.7	47.2	48.6
Plus Social Security	45.1	47.8	50.4	49.3	47.8	46.6	48.0	47.5	46.0	44.6	46.6
Plus means-tested cash transfers (official definition)	40.2	44.3	47.7	47.2	45.3	44.3	45.6	45.2	43.7	42.3	43.7
Plus food and housing benefits	30.0	37.1	41.3	41.2	39.1	38.6	39.7	39.1	38.3	36.4	37.1
Less Federal taxes	30.1	38.0	42.5	42.2	40.0	39.6	40.9	39 2	38.2	36.4	36.8

Source: Congressional Budget Office and Committee staff.

Explanations for Increases in Poverty Between 1979 and 1990

As noted in table 1 of the previous subsection, between 1979 and 1990 the number of poor persons (using a modified definition of poverty which includes market and social insurance income, means-tested transfers and Federal taxes) increased from 21.6 to 30.5 million, representing a net increase in the poverty population of 41 percent, and an increase in the poverty rate from 9.9 percent to 12.3 percent. The aggregate "poverty gap," which is the difference between a poor family's disposable income and the poverty level, summed across all poor families, grew from $28.6 billion to $40.6 billion (in real 1987 dollars), representing an increase of $12.0 billion.

Several factors have potentially contributed to these changes in the level of poverty and the poverty gap, including demographic changes (size and composition of the population), changes in wages and other private sources of income (market income) relative to inflation, and changes in the effectiveness of Federal social programs and tax policy. The goal of this analysis is to determine how significant a contribution each of these factors has made to the increase in the number of poor persons and the poverty gap noted above. Because individuals in different family types have been differentially affected by each of these factors, this analysis seeks to highlight trends for individuals in various family types.

METHODOLOGY

A family is officially classified as poor if cash income (wages, pensions, Social Security benefits, AFDC benefits and all other forms of cash income) is less than the poverty threshold. The poverty threshold in 1990 was $13,359 for a family of four persons. For the purpose of this analysis, this official definition of poverty was modified by adding near-cash benefits (such as the value of food and housing benefits) to income, and subtracting Federal income and payroll taxes from income. If this "disposable income" was less than the poverty threshold, all the individuals in the family were classified as poor. With the exception of changes in Government health programs such as Medicare and Medicaid, this "disposable income" poverty measure is sensitive to all policy changes in the major social insurance and means-tested programs. To highlight the difference between this modified definition of poverty and the official definition of poverty, note that under the official definition of poverty the number of persons classified as poor increased 33.3 percent between 1979 and 1990, from 25.2 million to 33.6 million. The official poverty rate increased from 11.6 to 13.5 percent.

This analysis is based on the data in the previous subsection for 1979 and 1990 which describe the antipoverty effectiveness of various cash and noncash sources of income. To determine what factors have contributed to changes in the poverty of individuals in each family type, this analysis compares the effectiveness of each factor in removing individuals from poverty in 1979 with its effectiveness in 1990. A similar analysis is repeated to evaluate which factors have contributed most to the increase in the poverty gap. Note that these findings are only suggestive of general trends over this specified time period.

As an example, the numbers for individuals in families headed by an unmarried person were calculated based on the following set of data taken from table 3.

	1979 actual	1979: marginal percent left in poverty	1990 expected	1990 actual
Total population	22,978,000	.....	30,508,000	30,508,000
Number poor, market income only	11,480,000	50.0	15,254,000	15,110,000
Number poor, market and social insurance income	10,367,000	90.3	13,644,000	14,841,000
Number poor, market and social insurance income and means-tested transfers (including food and housing)	6,901,000	66.6	9,884,000	11,313,000
Number poor, all cash income and means-tested transfers, after Federal taxes (payroll and income)	6,925,000	100.3	11,347,000	11,234,000

These data show that if one takes into account market income only, 50.0 percent of individuals in this family type would have been classified as poor in 1979. If market income had been as successful in taking people out of poverty in 1990 as in 1979, 15,254,000 (approximately $50.0\% \times 30{,}508{,}000$) individuals would have been poor counting only market income. However, 15,110,000 individuals were actually poor in 1990, implying a decrease in the poverty population of 144,000 due to market income.

In 1979, of those 11,480,000 left in poverty counting only market income, 90.3 percent (or 10,367,000) were still in poverty after adding in social insurance. To determine the marginal effect of social insurance income on the increased number of poor between 1979 and 1990, one applies this percentage to the number actually poor in 1990 after market income. If social insurance income had been as successful in taking people out of poverty in 1990 as in 1979, 13,644,000 ($90.3\% \times 15{,}110{,}000$) individuals would have been poor counting both market and social insurance income. However, 14,481,000 individuals were actually poor in 1990, implying an increase in the poverty population due to social insurance income of 1.2 million. This methodology was repeated to gauge the impact of both means-tested transfers and Federal taxes on the increased number in poverty.

Because the population grew 14.1 percent over the 1979–90 period, the effect of "average" population growth was computed. Counting all sources of income (market and social insurance income, means-tested transfers, and Federal taxes), 30.1 percent of the population was left in poverty in 1979. Assuming these sources of income had the same effect on the number of poor in 1990 as in

1979, but population grew 14.1 percent, we would expect an increase in the poverty population of 975,209 (22,978,000 × 14.1% × 30.1%).

Finally, the increase in the number of poor that could not be attributed to the changed effectiveness of the various income sources or to average population growth was attributed to an "other" category. Among other things, this category would take into account above- or below-average population growth.

This procedure was followed to determine the causes for the increases in poverty and the poverty gap for each family type.

EXPLANATIONS FOR THE INCREASE IN THE POVERTY POPULATION

Table 6 presents data which suggest which factors contributed to the increase in the number of poor persons between 1979 and 1989, broken down by type of family. The last column of the table illustrates the overall contribution of each factor. Based on this methodology, changes in means-tested programs added 2.2 million people to the poverty population, changes in market income removed 1.0 million and changes in social insurance programs added roughly 1.0 million. Population growth and all other changes added about 5.0 million. In percentage terms, the largest contributing factor was the growth in population (38 percent), followed by the reduced effectiveness of means-tested welfare programs (30 percent), changes in demographics (26 percent), and the reduced effectiveness of social insurance programs (13 percent).

Individuals in families with children headed by an unmarried person accounted for 51 percent of the total increase in the number of poor persons, although they comprise but 12 percent of the population. Means-tested welfare programs tend to be targeted toward this group, and they rely more heavily on these programs to escape poverty than other individuals. In percentage terms, the reduced effectiveness of means-tested welfare programs (53 percent) along with population growth (24 percent) and demographic changes (30 percent) accounted for most of the increase in poverty among this group.

Individuals in families with children headed by a married couple accounted for 25 percent of the total increase in the number of poor persons, although they comprise 44 percent of the population. These individuals are often not eligible for means-tested programs and tend to rely more heavily on earnings to escape poverty. Declining market incomes relative to inflation were a major contributing factor to their increase in poverty (67 percent), followed by the reduced effectiveness of means-tested programs (19 percent). Population growth and "other" factors (primarily demographic changes) reduced the number in poverty in this group by 564,000, representing an offsetting contribution of 31 percent to the total increase in poverty.

Individuals in households with all members over 65, who comprise 9 percent of the total population, experienced a very small net decline in the size of their poverty population. Market income, which includes private pensions, reduced the official pretransfer poverty rate over this 11-year period by 6.4 percentage points or 11 percent.

Individuals in "other" family types include nonelderly individuals and married couples without children, and other family groups without children that are not 100 percent elderly. Individuals in this group accounted for 28 percent of the increase in the poverty population, although they comprise 19 percent of the total population. The reduced effectiveness of social insurance programs accounted for 37 percent of the increase in the number of poor. This group was affected by tightened disability insurance eligibility. As individuals in this group tend not to be eligible for most types of means-tested welfare benefits, changes in welfare programs contributed much less to increases in this group's poverty population.

EXPLANATIONS FOR THE INCREASE IN THE POVERTY GAP

The poverty gap is an important complementary approach to evaluating poverty. Over time, changes in income and the effectiveness of Federal programs and policies may do little to reduce the number who are counted as poor, but may have a very real impact in reducing the degree of poverty. This is especially relevant when one considers that eligibility was tightened in some Federal programs, such as UI and Social Security, while benefits were reduced in others, such as AFDC and food stamps. Eligibility tightening in programs tends to make a greater percentage contribution to increases in the poverty gap than to increases in the poverty population.

Table 7 presents data which suggest the factors contributing to the increase in the poverty gap between 1979 and 1989, broken down by type of family. The last column of the table illustrates the overall contribution of each factor. Population growth, changes in market incomes and other residual changes accounted for 58 percent of the increase in the aggregate poverty gap, followed by social insurance programs (24 percent), means-tested program changes (16 percent), and changes in Federal tax policy (1 percent).

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TABLE 4.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL INDIVIDUALS IN MARRIED-COUPLE FAMILIES WITH RELATED CHILDREN LESS THAN 18, 1979, 1981–90

	1979	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Number of poor individuals (thousands):											
Cash income before transfers	10,030	13,531	15,165	15,184	13,503	12,954	12,052	11,477	11,156	11,117	11,564
Plus social insurance (other than Social Security)	9,288	12,515	13,611	13,447	12,497	11,977	11,034	10,649	10,329	10,521	10,918
Plus Social Security	8,232	11,253	12,457	12,644	11,622	11,120	10,149	9,916	9,338	9,665	10,191
Plus means-tested cash transfers (official definition)	7,578	10,566	11,893	12,183	11,169	10,604	9,624	9,496	8,785	9,019	9,507
Plus food and housing benefits	6,360	9,274	10,591	11,205	10,143	9,429	8,693	8,585	7,953	7,813	8,412
Less Federal taxes	6,713	10,736	11,892	12,620	11,710	10,916	9,982	9,318	8,429	8,515	8,693
Number of individuals removed from poverty due to (thousands):											
Social insurance (other than Social Security)	742	1,016	1,554	1,737	1,006	977	1,018	828	827	596	646
Social insurance (including Social Security)	1,798	2,278	2,708	2,540	1,881	1,834	1,903	1,561	1,818	1,452	1,373
Means-tested cash, food and housing benefits	1,872	1,979	1,866	1,439	1,479	1,691	1,456	1,331	1,385	1,852	1,779
Federal taxes	−353	−1,462	−1,301	−1,415	−1,567	−1,487	−1,289	−733	−476	−702	−281
Percent of individuals removed from poverty due to:											
Social insurance (including Social Security)	17.9	16.8	17.9	16.7	13.9	14.2	15.8	13.6	16.3	13.1	11.9
Means-tested cash, food and housing benefits and Federal taxes	15.1	3.8	3.7	0.2	−0.7	1.6	1.4	5.2	8.1	10.3	13.0
Poverty gap (millions of 1987 dollars):											
Cash income before transfers	13,546	18,371	21,014	21,266	18,934	17,837	16,530	16,007	14,921	14,484	15,006

Plus social insurance (other than Social Security)	12,059	16,057	18,141	17,991	17,019	16,268	14,782	14,668	13,318	13,082	13,581
Plus Social Security	9,554	13,204	15,632	15,794	14,695	14,072	12,488	12,471	11,039	10,871	11,753
Plus means-tested cash transfers (official definition)	7,596	10,665	12,826	12,636	11,759	11,071	9,794	9,967	8,862	8,443	9,038
Plus food and housing benefits	5,762	8,575	10,223	9,921	9,223	8,693	7,662	7,738	6,781	6,312	6,826
Less Federal taxes	5,809	9,060	10,795	10,597	9,957	9,348	8,251	7,946	6,827	6,402	6,880
Percentage reduction in poverty gap due to:											
Social insurance (including Social Security)	29.5	28.1	25.6	25.7	22.4	21.1	24.5	22.1	26.0	24.9	21.7
Means-tested cash, food and housing benefits and Federal taxes	27.6	22.6	23.0	24.4	25.0	26.5	25.6	28.3	28.2	30.9	32.5
Poverty rate (in percent):											
Cash income before transfers	9.4	12.6	14.1	14.3	12.8	12.2	11.3	10.8	10.5	10.5	10.9
Plus social insurance (other than Social Security)	8.7	11.6	12.6	12.7	11.9	11.3	10.4	10.0	9.7	9.9	10.3
Plus Social Security	7.7	10.4	11.6	11.9	11.0	10.5	9.5	9.4	8.8	9.1	9.6
Plus means-tested cash transfers (official definition)	7.1	9.8	11.0	11.5	10.6	10.0	9.0	9.0	8.3	8.5	8.9
Plus food and housing benefits	5.9	8.6	9.8	10.5	9.6	8.9	8.2	8.1	7.5	7.4	7.9
Less Federal taxes	6.3	10.0	11.0	11.9	11.1	10.3	9.4	8.8	7.9	8.0	8.4

Source: Congressional Budget Office and Committee staff.

TABLE 5.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR INDIVIDUALS IN UNITS WITH ALL MEMBERS 65 OR OLDER, 1979, 1981–90

	1979	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Number of poor individuals (thousands):											
Cash income before transfers	10,385	10,884	10,772	10,843	11,009	11,200	11,550	11,741	11,797	11,971	11,904
Plus social insurance (other than Social Security)	10,165	10,763	10,604	10,654	10,862	11,033	11,334	11,546	11,645	11,806	11,733
Plus Social Security	3,288	3,353	3,226	3,231	3,072	3,146	3,176	3,114	3,118	3,138	3,253
Plus means-tested cash transfers (official definition)	2,936	3,066	3,005	2,928	2,717	2,831	2,874	2,866	2,828	2,810	3,038
Plus food and housing benefits	2,572	2,621	2,631	2,520	2,250	2,347	2,436	2,354	2,293	2,335	2,452
Less Federal taxes	2,577	2,644	2,638	2,533	2,256	2,353	2,446	2,363	2,306	2,354	2,458
Number of individuals removed from poverty due to (thousands):											
Social insurance (including Social Security)	7,097	7,531	7,546	7,612	7,937	8,054	8,374	8,627	8,679	8,833	8,651
Means-tested cash, food and housing benefits	716	732	595	711	822	799	740	760	825	803	801
Federal taxes	−5	−23	−7	−13	−6	−6	−10	−9	−13	−19	−6
Percent of individuals removed from poverty due to (thousands):											
Social insurance (including Social Security)	68.3	69.2	70.1	70.2	72.1	71.9	72.5	73.5	73.6	73.8	72.7
Means-tested cash, food and housing benefits and Federal taxes	6.8	6.5	5.5	6.4	7.4	7.1	6.3	6.4	6.9	6.5	6.7
Poverty gap (millions of 1987 dollars):											
Cash income before transfers	34,245	36,983	36,633	36,430	36,869	37,796	39,144	39,230	39,242	39,596	39,579
Plus social insurance (other than Social Security)	32,635	35,751	35,528	35,119	35,605	36,553	37,904	37,833	38,300	38,436	38,591

Plus Social Security	5,854	5,706	5,852	5,683	5,232	5,508	5,611	5,540	5,273	5,426	5,662
Plus means-tested cash transfers (official definition)	3,901	3,999	4,163	3,728	3,306	3,733	3,965	3,924	3,725	3,806	4,217
Plus food and housing benefits	3,369	3,389	3,634	3,242	2,770	3,151	3,385	3,274	3,037	3,141	3,424
Less Federal taxes	3,379	3,398	3,643	3,254	2,777	3,158	3,395	3,285	3,046	3,153	3,434
Percentage reduction in poverty gap due to:											
Social insurance (including Social Security)	82.9	84.6	84.0	84.4	85.8	85.4	85.7	85.9	86.6	86.3	85.7
Means-tested cash, food and housing benefits and Federal taxes	7.2	6.2	6.0	6.7	6.7	6.2	5.7	5.7	5.7	5.7	5.6
Poverty rate for individuals (in percent):											
Cash income before transfers	60.0	58.9	57.3	56.2	56.3	56.6	55.8	55.6	54.9	54.9	53.6
Plus social insurance (other than Social Security)	58.7	58.2	56.4	55.3	55.5	55.7	54.7	54.7	54.2	54.1	52.8
Plus Social Security	19.0	18.1	17.2	16.8	15.7	15.9	15.3	14.7	14.5	14.4	14.7
Plus means-tested cash transfers (official definition)	17.0	16.6	16.0	15.2	13.9	14.3	13.9	13.6	13.2	12.9	13.7
Plus food and housing benefits	14.9	14.2	14.0	13.1	11.5	11.8	11.8	11.1	10.7	10.7	11.0
Less Federal taxes	14.9	14.3	14.0	13.1	11.5	11.9	11.8	11.2	10.7	10.8	11.1

Source: Congressional Budget Office and Committee staff.

TABLE 6.—SOURCES OF THE INCREASE IN THE POVERTY POPULATION BETWEEN 1979 AND 1989, BY TYPE OF FAMILY, USING OFFICIAL POVERTY THRESHOLDS

[Thousands of persons]

	Type of family					
	All families with children under 18			All members over age 65	Other	Total
	Unmarried head	Married couple	Total			
Increased number of after-transfer poor (1979–1989) due to:						
Average population growth	895	867	1,762	333	696	2,791
Market income changes	−542	1,210	668	−1,125	−509	−966
Social insurance program changes	330	541	871	−652	753	972
Welfare program changes	1,956	346	2,302	−120	28	2,210
Federal tax changes	−25	268	243	14	192	430
Other (demographic)	1,109	−1,431	−322	1,326	893	1,898
Total increase	3,723	1,802	5,525	−223	2,033	7,335
Percent of total increase	51	25	75	−3	28	100
Percent of total population	12	44	55	9	19	100
Percentage contribution, by source:						
Average population growth	24	48	32	NA	34	38
Market income changes	−15	67	12	NA	−25	−13
Social insurance program changes	9	30	16	NA	37	13
Welfare program changes	53	19	42	NA	1	30
Federal tax changes	−1	15	4	NA	8	6
Other (demographic)	30	−79	−6	NA	44	26
Total	100	100	100	NA	100	100

Chart 2, based on numbers in table 6, illustrates the causes for the increase in the number of poor persons among families with children under 18 years old between 1979 and 1989.

CHART 2. SOURCES OF THE INCREASE IN THE NUMBER OF POOR PERSONS IN FAMILIES WITH CHILDREN UNDER 18 YEARS OLD, BETWEEN 1979 AND 1989

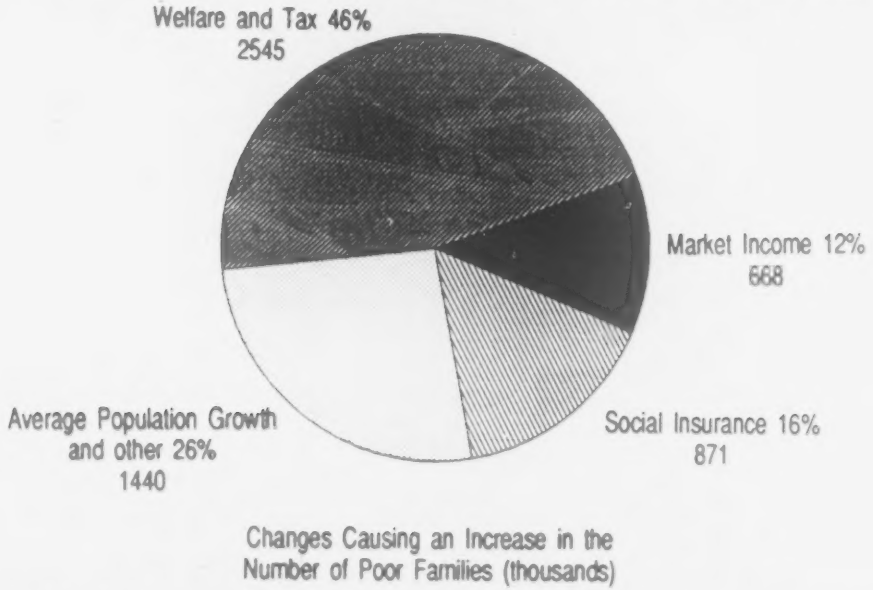

Table 8 is identical to table 6 except that it provides new data which compares the factors that contributed to the increase in the number of poor persons between 1979 and *1990*, a recession year. (Table 6 examines changes in the poverty population between two nonrecession years, 1979 and 1989). According to 1990 data, relative to 1979, changes in means-tested programs added 2.4 million people to the poverty population; changes in market income removed 162,000 people; and changes in social insurance programs added almost 1.7 million people. Population growth and all other changes added almost 5 million people to poverty. In percentage terms, the largest contributing factor was the growth in the population (34 percent), followed by reduced effectiveness of means-tested welfare programs (27 percent), changes in demographics (21 percent), and the reduced effectiveness of social insurance programs (18 percent).

Comparing tables 6 and 8 yields the reasons for why the number of poor increased by 1.5 million between 1989 and 1990. As one would expect, the major reason was the decline in pretransfer, pretax market incomes which accounted for 0.8 million or 53 percent of the increase. Seventeen percent of the increase was simply due to increased population. Tax policy accounted for a small decrease in the number classified as poor. Most of the remaining difference in the increase in the number who are poor between 1989 and 1990 is the reduced antipoverty effectiveness of the social in-

surance programs. While this may be somewhat surprising, it is a trend that has been consistent, particularly for families with children. In tables 2–4, this trend is most readily apparent by examining the percent of individuals removed from poverty due to social insurance. For example, in table 4, for married-couple families with children, the percentage declined from 16.3 percent in 1988 to 11.9 percent in 1990. Even for the elderly, as shown in table 5, the percentage declined from 73.8 percent in 1989 to 72.7 percent in 1990. During most of the 11-year period, the percentage had been increasing for the elderly population.

Using the same methodology as described earlier, table 9 illustrates sources of the increase in the poverty population for all families and families with children for selected years. As expected, average population growth slowly increased the number who are poor. As the economic expansion continued, relative to 1979, 1.9 million individuals fell into poverty due to market income changes in 1986 compared to 162,000 individuals who were removed from poverty in 1990. The number of people added to poverty because of social insurance program changes increased slightly to 1.6 million after remaining remarkably the same at 1 million individuals since 1986. The number of people added to poverty because of changes in means-tested programs decreased from slightly over 3 million in 1986 and 1987 to around 2.4 million in 1990. There were several policy changes enacted in 1988 that account for this improvement. Finally, the most improvement from a policy perspective has occurred in Federal tax law. Before the increases in the personal exemption and the EITC took effect, 1.3 milion individuals were added to poverty relative to 1979 because of increases in Federal tax burdens to low-income individuals. With the passage of the Tax Reform Act of 1986 and the increases in the EITC in the Omnibus Reconciliation Act of 1990, only 163,000 individuals have been added to poverty.

Welfare benefits reduce the poverty gap between income and the poverty line in order to bring as many poor households as possible up to and above the level of poverty. Prewelfare poverty shows the percentage of people who are poor before welfare is added to their other sources of income (table 10). In each State, the percentage reduction in the prewelfare poverty gap exceeds the percentage reduction in the rate of prewelfare poverty. Maximum welfare benefits in every State are less than the poverty threshold. Cash welfare programs throughout the United States reduce poverty by 0.7 percent to 11.9 percent if measured in terms of the decline in the level of poverty. However, if measured in terms of the reduction in the poverty gap, percentages range from 10.7 percent in Nevada to 42.0 percent in Wisconsin. These wide discrepancies exist among the States due to newly developed data on State poverty rates and the impact of State income support policies on poverty.[2]

TABLE 10.—PERCENT OF POOR REDUCED BY RECEIPT OF WELFARE BENEFITS, AND RESULTING REDUCTION IN POVERTY GAP, MID-1980'S

State	Official poor [1]	Prewelfare poor [2]	Persons taken out of poverty by welfare [3] (percent)	Reduction in prewelfare poverty gap [4]
United States	14.0	14.9	6.0	26.3
New England:				
Maine	11.1	12.1	8.3	30.1
New Hampshire	5.6	6.1	8.2	16.0
Vermont	10.2	11.4	10.5	33.3
Massachusetts	8.8	9.9	11.1	38.1
Rhode Island	11.2	12.1	7.4	38.5
Connecticut	7.2	7.3	1.4	36.2
Mid-Atlantic:				
New York	15.2	16.6	8.4	39.2
New Jersey	9.5	10.3	7.8	31.5
Pennsylvania	12.4	13.5	8.1	32.6
East North Central:				
Ohio	12.4	12.9	3.4	26.7
Indiana	12.2	12.5	2.4	14.3
Illinois	15.0	15.8	5.1	30.1
Michigan	14.4	15.6	7.7	35.9
Wisconsin	11.8	13.4	11.9	42.0
West North Central:				
Minnesota	11.5	12.2	5.7	31.9
Iowa	16.5	17.0	2.9	22.7
Missouri	14.3	14.8	3.4	19.0
North Dakota	14.9	15.3	2.6	11.5
South Dakota	16.2	16.5	1.8	12.0
Nebraska	14.6	14.7	.7	15.1
Kansas	11.2	12.1	7.4	15.0

[2] Plotnick, Robert D. "How Much Poverty is Reduced by State Income Transfers?" Monthly Labor Review, July 1989.

TABLE 10.—PERCENT OF POOR REDUCED BY RECEIPT OF WELFARE BENEFITS, AND RESULTING REDUCTION IN POVERTY GAP, MID-1980'S—Continued

State	Official poor [1]	Prewelfare poor [2]	Persons taken out of poverty by welfare [3] (percent)	Reduction in prewelfare poverty gap [4]
South Atlantic:				
Delaware	11.3	11.7	3.4	18.1
Maryland	8.5	8.8	3.4	25.1
District of Columbia	19.2	19.9	3.5	23.3
Virginia	10.6	11.3	6.2	22.8
West Virginia	22.8	23.7	3.8	21.1
North Carolina	14.0	14.9	6.0	20.2
South Carolina	17.6	18.3	3.8	20.2
Georgia	15.6	16.3	4.3	22.2
Florida	13.3	13.9	4.3	15.6
East South Central:				
Kentucky	18.5	19.3	4.1	15.2
Tennessee	17.8	19.1	6.8	21.6
Alabama	21.5	22.0	2.3	17.2
Mississippi	25.6	27.3	6.2	19.9
West South Central:				
Arkansas	22.4	23.6	5.1	19.3
Louisiana	20.8	21.6	3.7	16.5
Oklahoma	15.5	16.0	3.1	14.4
Texas	16.2	16.7	3.0	12.0
Mountain:				
Montana	16.3	16.8	3.0	13.8
Idaho	16.4	16.6	1.2	11.5
Wyoming	12.3	12.8	3.9	14.7
Colorado	10.8	11.1	2.7	18.5
New Mexico	20.7	21.4	3.3	16.7
Arizona	13.4	13.6	1.5	12.0
Utah	11.9	12.4	4.0	16.3
Nevada	12.4	12.8	3.1	10.7
Pacific:				
Washington	11.7	12.4	5.7	25.8
Oregon	12.6	13.2	4.5	16.9
California	13.4	15.1	11.3	37.4
Alaska	10.4	11.8	11.9	27.4
Hawaii	9.9	10.6	6.6	28.2

[1] This measure is based on the Bureau of the Census definition of money income. Capital gains and income such as fringe benefits or government benefits from food stamps or medicare are excluded.

[2] The percentage of people who are poor before welfare is added to their other sources of income. Persons in this group need welfare to escape poverty.

[3] Defined as (prewelfare poor minus official poor)/prewelfare poor.

[4] Defined as (prewelfare gap minus official gap)/prewelfare gap.

Source: Computations from the March 1985, 1986, and 1987 Current Population Survey computer tapes.

V. DISTRIBUTION OF INCOME AND FEDERAL TAXES: 1977–89

The following section examines the distribution of income and Federal taxes and income for families in the United States using newly provided 1989 data from the Congressional Budget Office (CBO). These new tables update a portion of Appendix J, pages 1286–1329 of the 1991 Green Book.

In the CBO analysis combined Federal taxes include individual and corporate income taxes, social insurance payroll taxes, and excise taxes except for the windfall profit tax. Although Federal tax payments are made by persons, corporations, and noncorporate employers, the economic burden of all taxes ultimately rests with families and individuals. Economists speak of the reduction in family income or purchasing power as the incidence of a tax. The incidence of some taxes, particularly the corporate income tax, is uncertain, and remains a controversial issue. The following incidence assumptions were used in the tables.

—The individual income tax burden is attributed to the families who directly pay the tax. The study assumes no shifting of the tax among families.

—The social insurance payroll tax burden is allocated to employee compensation. The portion of the payroll tax collected from employers is assumed to be shifted back onto employees in the form of lower wages.

—Excise taxes are assumed to be passed forward to individual consumers in higher prices on goods subject to the tax.

—Although the corporate income tax is collected from corporations, families are assumed ultimately to bear its economic burden. Economists disagree, however, about who is affected by the corporate income tax, employees of the corporation or shareholders. The tables that follow assume that half of the corporate income tax is allocated to capital income and half to labor income. The method of allocation does not affect the main conclusions about how the distribution of the tax burden among income classes has changed over time.

These tables do not attempt to allocate the distributional effects of general government spending. In comparing the distribution of Federal taxes in different years, shifts in the distribution of general expenditures between those years are ignored. The CBO studies also separate the distribution effects of taxes from the effects of expenditures significantly related to those taxes. Social Security revenues are thus implicitly treated as independent of benefit payments.

Family income is measured on a cash receipt basis, a definition generally consistent with the measure of income used by the Federal tax system. Family income equals the sum of wages, salaries, self-employment income, personal rents, interest, dividends, gov-

TABLE 7.—SOURCES OF THE INCREASE IN THE POVERTY GAP BETWEEN 1979 AND 1989, BY TYPE OF FAMILY

[Constant 1987 dollars, in millions]

	Type of family					
	All families with children under 18			All members over age 65	Other	Total
	Unmarried head	Married couple	Total			
Increase in poverty gap (1979–1989) due to:						
Market incomes/demographic/other	2,177	688	2,865	1,505	3,652	8,022
Social insurance program changes	1,016	716	1,733	−1,465	3,030	3,297
Welfare program changes	2,421	−267	2,154	20	94	2,268
Federal tax changes	−60	42	−18	3	211	196
Total increase	5,555	1,179	6,734	63	6,986	13,782
Percent of total increase	40	9	49	0	51	100
Percentage contribution, by source:						
Market incomes/demographic/other	39	58	43	NA	52	58
Social insurance program changes	18	61	26	NA	43	24
Welfare program changes	44	−23	32	NA	1	16
Federal tax changes	−1	4	0	NA	3	1
Total increase	100	100	100	NA	100	100

TABLE 8.—SOURCES OF THE INCREASE IN THE POVERTY POPULATION BETWEEN 1979 AND 1990, BY TYPE OF FAMILY, USING OFFICIAL POVERTY THRESHOLDS

[Thousands of persons]

	Type of family					
	All families with children under 18			All members over age 65	Other	Total
	Unmarried head	Married couple	Total			
Increased number of after-transfer poor (1979–90) due to:						
Average population growth	979	949	1,928	364	762	3,054
Market income changes	−132	1,632	1,500	−1,421	−242	−162
Social insurance program changes	558	700	1,258	−516	818	1,560
Welfare program changes	1,858	538	2,397	−93	115	2,420
Federal tax changes	−118	84	−34	1	196	163
Other (demographic)	1,164	−1,654	−490	1,545	768	1,824
Total increase	4,309	2,250	6,559	−119	2,419	8,859
Percent of total increase	49	25	74	−1	27	100
Percent of total population	12	44	55	9	19	100
Percentage contribution, by source:						
Average population growth	23	42	29	NA	32	34
Market income changes	−3	73	23	NA	−10	−2
Social insurance program changes	13	31	19	NA	34	18
Welfare program changes	43	24	37	NA	5	27
Federal tax changes	−3	4	−1	NA	8	2
Other (demographic)	27	−74	−7	NA	32	21
Total	100	100	100	NA	100	100

TABLE 9.—SOURCES FOR THE INCREASE IN THE POVERTY POPULATION FOR ALL FAMILIES AND FAMILIES WITH CHILDREN, FOR SELECTED YEARS RELATIVE TO 1979

[In thousands]

	Total population					Families with children				
	1986	1988	1989	1990	EITC [1]	1986	1988	1989	1990	EITC [1]
Increased number of after-transfer poor from 1979 due to:										
Average population growth	2,054	2,547	2,791	3,054	2,791	1,296	1,608	1,762	1,928	1,762
Market income changes	1,914	78	−966	−162	−966	2,492	1,114	668	1,500	668
Social insurance program changes	965	860	972	1,560	972	695	572	871	1,258	871
Means-tested program changes	3,013	2,898	2,210	2,420	2,210	2,982	2,921	2,302	2,397	2,302
Federal tax changes	1,335	−38	430	163	−863	1,107	−27	243	−34	−990
Other (primarily demographic)	362	1,262	1,898	1,824	1,898	−1,011	−473	−322	−490	−322
Total increase	9,643	7,608	7,335	8,859	6,042	7,561	5,714	5,525	6,659	4,292
Percent of total increase	100	100	100	100	100	78	75	75	74	71
Percent of total population	100	100	100	100	100	60	55	55	55	55
Percentage contribution, by source:										
Average population growth	21	33	38	34	46	17	28	32	29	41
Market income changes	20	1	−13	−2	−16	33	19	12	23	16
Social insurance program changes	10	11	13	18	16	9	10	16	19	20
Means-tested program changes	31	38	30	27	37	39	51	42	37	54
Federal tax changes	14	0	6	2	−14	15	0	4	−1	−23
Other (primarily demographic)	4	17	26	21	31	13	−8	−6	−7	−7
Total	100	100	100	100	100	100	100	100	100	100

[1] Using 1989 data, this column adjusts for the changes in EITC rates which will be fully implemented in 1994.

ernment cash transfers, cash pension benefits, and realized capital gains. Family income excludes accrued but unrealized capital gains, employer contributions to pension funds, in-kind government transfer payments, and other noncash income. Because income is measured before reductions for any Federal taxes, employer contributions for Federal social insurance and Federal corporate profits taxes are added to family income. Family incomes are put in constant dollars by the CPI–X1 price index.

Many people incur "paper losses" for tax purposes. In order to approximate better the economic income of families, rental losses and most partnership losses were not subtracted from family income. All losses of sole proprietorships were allowed.

Reported pretax family incomes were adjusted to include the amount of the employer share of the Social Security payroll tax, the unemployment insurance payroll tax, and the corporate income tax. The unemployment insurance payroll tax and the employer share of the Social Security payroll tax were allocated to the employee on whose behalf the taxes were paid.

Individuals are assigned to quintiles or deciles based on family income divided by the poverty threshold for the appropriate family size. Twenty percent of the population are in each quintile for each year. They will represent a different percentage of families. Families include both families and single individuals. Average incomes and tax rates for the lowest quintile or decile were calculated excluding families with negative or zero incomes. The poverty thresholds depend only on family size, not the age of the householder, and the number of children. For a more complete description of the methodology, the reader is referred to Appendix J of the 1991 Green Book.

Description of Tables

Table 1

Table 1 compares the adjusted pretax family income for all families, with income expressed as multiples of the poverty thresholds and percentage changes in real income adjusted for inflation. In 1989, average adjusted pretax family income was 89 percent of the poverty threshold for the lowest 20 percent of the population, while it was an average of 11.75 times poverty for the highest. From 1977 to 1989, real income fell by 8.8 percent for the lowest quintile. By contrast, it rose by 29.0 percent for the highest.

Table 2

Table 2 compares the average posttax family income for all families, with incomes expressed as multiples of the poverty thresholds and percentage changes in real income adjusted for inflation. The 1989 average posttax family income for the poorest 20 percent was 81 percent of the poverty threshold. Average posttax family income was almost 9 times the poverty threshold for the richest 20 percent of the population and almost 44 percent times the poverty line for the richest 1 percent.

Table 3

Table 3 compares average real pretax family income for all families. In 1989, the average pretax family income was $8,132 for a family in the poorest 20 percent of the population and $112,652 for a family in the richest 20 percent of the population. Between 1977 and 1989, the pretax income fell by more than 10 percent for the poorest quintile while it rose by more than 25 percent for the highest quintile and by 78 percent for the richest 1 percent of the population.

Table 4

Table 4 compares average real after-tax family income for all families. After taxes, average family income fell by 10 percent for the lowest quintile and rose by 28 percent for the highest quintile. Income for the richest 1 percent of the population rose by over 102 percent after taxes.

Table 5

Table 5 compares the share of total Federal taxes paid by all families, from lowest to highest quintiles. In 1989, families in the lowest 20 percent in income of the total U.S. population paid 1.5 percent of the total tax burden, while the highest quintile paid 58.6 percent.

Table 6

Table 6 describes shares of pretax income for all families, from lowest to highest quintiles. In 1977, families in the lowest 20 percent in income of the total U.S. population received 4.9 percent of total pretax income, while the highest quintile acquired 46.6 percent. From 1977 to 1989, the share of pretax income of families in the lowest quintile dropped by 24.5 percent, while the share of the highest quintile rose by 11.2 percent.

Table 7

Table 7 describes shares of after-tax income for all families, from lowest to highest quintiles. In 1977, families in the lowest 20 percent in income of the total U.S. population received 5.7 percent of total after-tax income, while the highest quintile acquired 44.0 percent. From 1977 to 1989, the share of after-tax income of families in the lowest quintile dropped by 24.6 percent, while the share of the highest quintile rose by 13.0 percent.

Table 8

Table 8 shows average adjusted pretax and posttax family income in 1989, with income expressed as multiples of the poverty thresholds, for different family types. In 1989, average adjusted pretax family income for families in the lowest quintile was 89 percent of the poverty threshold for families with children, while it was 1.08 times the poverty threshold for elderly families. Pretax income for families with children in the lowest 20 percent of the population fell by 20.3 percent between 1977 and 1989, while it rose 14.2 percent for elderly families in that same income group.

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Table 9

Table 9 compares the total Federal effective tax rates for all families. In 1989, total Federal taxes were 9.3 percent of income for the lowest 20 percent of the population, while they are estimated to be 25.6 percent for the highest quintile. From 1977 to 1989, the tax rate grew by 0.1 percent for the lowest quintile, while the tax rate fell 5.8 percent for the highest quintile and by 24.7 percent for the richest 1 percent of the population.

Tables 10–11

Tables 10 and 11 compare average adjusted pretax family income with average real pretax family income by different family types for selected years. Since 1977, both average adjusted and real pretax family income have fallen slightly for families in the lowest quintile. In contrast, the incomes by both measures have steadily risen over the same period.

Tables 12–13

Tables 12 and 13 compare average adjusted posttax family income with average real posttax family income by different family types for selected years. Average adjusted family income after taxes has fallen 19.2 percent for families with children in the lowest 20 percent of the income population. Similarly, average real posttax family income has fallen 23.5 percent for the same group. In contrast, incomes for the highest 20 percent in income of the population have grown 27.2 and 23.5 percent for average adjusted posttax family income and average real posttax family income, respectively.

Table 14

Table 14 presents data with respect to total Federal effective tax rates for selected years by family type. In 1989, for families with children in the lowest 20 percent of income of the total U.S. population, total Federal taxes were 9.5 percent of income; 21.5 percent for the middle quintile, and 25.9 percent for the highest. From 1977 to 1989, the total Federal effective tax rate fell by 7.0 percent for families with children in the lowest quintile of the total U.S. population and rose by 4.0 percent for the middle quintile. For the highest quintile, it fell by 3.2 percent.

In 1989, for elderly households in the lowest 20 percent of income of the total U.S. population, total Federal taxes were 2.6 percent of income; 7.8 percent for the middle quintile, and 22.0 percent for the highest. From 1977 to 1989, the total Federal effective tax rate fell by 49.0 percent for elderly households in the lowest quintile of the total U.S. population; by 22.1 percent for those in the middle quintile; and by 8.4 percent for the highest. Middle income elderly rates are considerably less than tax rates for the middle quintile for nonelderly families.

In 1989, for all families in the lowest 20 percent in income of the total U.S. population, total Federal taxes were 9.3 percent of income; 19.4 percent for the middle quintile, and 25.6 percent for the highest.

TABLE 5.—SHARES OF TOTAL FEDERAL TAXES PAID BY ALL FAMILIES

[In percent]

All families (by income group)	1977	1980	1985	1988	1989	1992 [1]
Lowest quintile	**2.0**	1.6	1.8	1.5	1.5	1.4
Second quintile	7.2	6.9	6.8	6.2	6.4	6.2
Middle quintile	13.4	13.2	13.0	12.5	12.5	12.2
Fourth quintile	21.6	22.1	22.0	20.8	20.8	20.4
81 to 90 percent	16.7	17.1	17.0	16.4	16.6	16.3
91 to 95 percent	11.3	11.7	11.7	11.6	11.6	11.6
96 to 99 percent	14.1	14.5	14.2	15.0	15.0	15.1
Top 1 percent	13.6	12.9	13.3	15.9	15.4	16.6
Overall	100.0	100.0	100.0	100.0	100.0	100.0
Highest quintile	55.7	56.1	56.1	58.9	58.6	59.6
Top 10 percent	39.0	39.0	39.2	42.5	42.1	43.3
Top 5 percent	27.7	27.3	27.5	30.9	30.4	31.7

[1] Projected.

Note.—Table reads for **boldface** figure that the lowest 20 percent in income of the population in 1977 paid 2.0 percent of total Federal taxes.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 1.—AVERAGE ADJUSTED PRETAX FAMILY INCOME FOR ALL FAMILIES

[Income expressed as multiples of the poverty thresholds]

All families (by income group)	1977	1980	1985	1988	1989	1992 [1]	Percentage change 1977–89
Lowest quintile	**0.97**	0.93	0.87	0.88	0.89	0.87	−8.8
Second quintile	2.12	2.07	2.02	2.08	2.10	2.05	−1.3
Middle quintile	3.21	3.18	3.22	3.34	3.35	3.28	4.2
Fourth quintile	4.53	4.56	4.75	4.97	4.94	4.84	9.1
81 to 90 percent	6.16	6.24	6.71	7.02	7.02	6.89	14.0
91 to 95 percent	7.92	8.05	8.85	9.27	9.37	9.20	18.3
96 to 99 percent	11.36	11.71	13.22	14.58	14.50	14.35	27.6
Top 1 percent	33.81	36.81	50.16	66.04	59.89	60.62	77.1
Overall	4.00	4.03	4.31	4.63	4.59	4.50	14.5
Highest quintile	9.11	9.40	10.72	11.94	11.75	11.63	29.0
Top 10 percent	11.97	12.41	14.58	16.65	16.42	16.32	37.2
Top 5 percent	15.88	16.73	20.25	24.04	23.27	23.34	46.6

[1] Projected.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population in 1977, the average family was at 97 percent of the poverty threshold.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 2.—AVERAGE ADJUSTED POSTTAX FAMILY INCOME FOR ALL FAMILIES

[Income expressed as multiples of the poverty thresholds]

All families (by income group)	1977	1980	1985	1988	1989	1992 [1]	Percentage change 1977–89
Lowest quintile	**0.89**	0.85	0.79	0.80	0.81	0.80	−9.1
Second quintile	1.81	1.76	1.72	1.76	1.78	1.74	−1.7
Middle quintile	2.60	2.56	2.62	2.69	2.71	2.65	4.5
Fourth quintile	3.54	3.51	3.72	3.86	3.86	3.77	9.1
81 to 90 percent	4.67	4.65	5.13	5.29	5.32	5.19	13.9
91 to 95 percent	5.91	5.91	6.69	6.84	6.95	6.78	17.8
96 to 99 percent	8.29	8.43	9.99	10.70	10.70	10.46	29.0
Top 1 percent	21.76	25.08	37.64	48.32	43.88	43.16	101.7
Overall	3.09	3.09	3.38	3.57	3.55	3.46	15.0
Highest quintile	6.61	6.80	8.12	8.83	8.73	8.53	32.0
Top 10 percent	8.50	8.85	10.99	12.22	12.11	11.83	42.5
Top 5 percent	11.00	11.75	15.25	17.61	17.11	16.82	55.5

[1] Projected using 1992 tax law.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population in 1977, the average family was at 89 percent of the poverty threshold.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 3.—AVERAGE REAL PRETAX FAMILY INCOME

[In constant 1992 dollars]

All families	1977	1980	1985	1988	1989	1992 [1]	Percent change 1977–89
Lowest quintile	**9,368**	8,791	8,198	8,167	8,391	8,274	−10.4
Second quintile	22,333	21,009	19,940	20,347	20,140	19,686	−9.8
Third quintile	34,505	32,948	32,142	32,332	32,681	31,973	−5.3
Fourth quintile	46,772	45,827	46,444	48,420	47,913	46,909	2.4
81–90 percent	60,073	60,428	63,778	66,605	65,900	64,542	9.7
91–95 percent	76,525	75,876	82,398	85,464	87,711	85,835	14.6
96–99 percent	107,945	109,551	121,832	132,553	132,036	132,036	23.1
Top 1 percent	314,526	343,610	474,251	617,214	559,795	566,674	78.0
Overall	40,065	39,443	41,359	43,859	43,495	42,690	8.6
Highest quintile	87,268	89,031	100,526	111,034	109,424	108,300	25.4
Top 10 percent	113,655	116,331	135,921	153,475	152,454	151,619	34.1
Top 5 percent	149,498	156,314	188,937	221,590	215,329	216,483	44.0

[1] Projected.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population in 1977, the average family had $9,368 in income before taxes.

Source: Congressional Budget Office tax simulation model.

TABLE 4.—AVERAGE REAL AFTER-TAX FAMILY INCOME

[In constant 1992 dollars]

All families	1977	1980	1985	1988	1989	1992 [1]	Percent charge 1977–89
Lowest quintile	**8,495**	8,079	7,353	7,408	7,608	7,555	−10.4
Second quintile	18,885	17,740	16,798	17,120	16,987	16,609	−10.0
Third quintile	27,788	26,417	25,988	25,937	26,350	25,705	−5.2
Fourth quintile	36,563	35,320	36,367	37,592	37,379	36,452	2.2
81–90 percent	45,660	45,170	48,824	50,216	49,959	48,707	9.4
91–95 percent	57,218	55,884	62,429	63,217	65,250	63,317	14.0
96–99 percent	78,820	78,937	92,246	97,406	98,058	96,217	24.4
Top 1 percent	202,809	234,516	356,328	451,424	410,148	403,402	102.2
Overall	30,948	30,269	32,364	33,822	33,663	32,741	8.8
Highest quintile	63,546	64,583	76,252	82,220	81,399	79,475	28.1
Top 10 percent	80,899	83,111	102,670	112,792	112,480	109,935	39.0
Top 5 percent	103,760	110,020	142,530	162,442	158,347	155,900	52.6

[1] Projected.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population in 1977, the average family had $8,495 in income after taxes.

Source: Congressional Budget Office tax simulation model.

TABLE 6.—SHARES OF PRETAX INCOME FOR ALL FAMILIES

[In percent]

All families (by income group)	1977	1980	1985	1988	1989	1992 [1]
Lowest quintile	**4.9**	4.5	3.8	3.7	3.7	3.7
Second quintile	10.6	10.3	9.4	9.0	9.3	9.3
Middle quintile	15.7	15.5	14.8	14.5	14.6	14.6
Fourth quintile	22.5	22.5	22.0	21.2	21.4	21.3
81 to 90 percent	15.8	15.7	15.7	15.2	15.5	15.5
91 to 95 percent	10.2	10.3	10.5	10.2	10.3	10.3
96 to 99 percent	11.9	12.0	12.7	12.9	12.9	13.0
Top 1 percent	8.7	9.4	11.6	13.5	13.0	13.4
Overall	100.0	100.0	100.0	100.0	100.0	100.0
Highest quintile	46.6	47.5	50.6	51.9	51.8	52.2
Top 10 percent	30.8	31.7	34.8	36.7	36.3	36.7
Top 5 percent	20.6	21.4	24.3	26.5	26.0	26.4

[1] Projected.

Note.—Table reads for **boldface** figure that the lowest 20 percent in income of the population in 1977 received 4.9 percent of total pretax income.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 7.—SHARES OF AFTER-TAX INCOME FOR ALL FAMILIES

[In percent]

All families (by income-group)	1977	1980	1985	1988	1989	1992 [1]
Lowest quintile	**5.7**	5.4	4.4	4.3	4.3	4.4
Second quintile	11.6	11.4	10.1	9.8	10.1	10.2
Middle quintile	16.3	16.2	15.3	15.1	15.2	15.3
Fourth quintile	22.7	22.6	22.0	21.4	21.6	21.6
81 to 90 percent	15.6	15.3	15.4	14.9	15.2	15.2
91 to 95 percent	9.9	9.9	10.2	9.8	9.9	9.9
96 to 99 percent	11.3	11.3	12.3	12.3	12.3	12.3
Top 1 percent	7.3	8.4	11.2	12.8	12.4	12.5
Overall	100.0	100.0	100.0	100.0	100.0	100.0
Highest quintile	44.0	44.9	49.0	49.8	49.7	49.9
Top 10 percent	28.4	29.5	33.6	35.0	34.6	34.7
Top 5 percent	18.5	19.7	23.4	25.2	24.7	24.8

[1] Projected.

Note.—Table reads for **boldface** figure that the lowest 20 percent in income of the population in 1977 received 5.7 percent of total after-tax income.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 10.—AVERAGE ADJUSTED PRETAX FAMILY INCOME BY FAMILY GROUP FOR SELECTED YEARS

[In constant 1992 dollars]

	1977	1980	1985	1989	1992 [1]	Percentage change 1977–89
All families:						
Lowest	0.97	0.93	0.87	0.89	0.87	−8.8
Second	2.12	2.07	2.02	2.10	2.05	−1.3
Third	3.21	3.18	3.22	3.35	3.28	4.2
Fourth	4.53	4.56	4.75	4.94	4.84	9.1
Highest	9.11	9.40	10.72	11.75	11.63	29.0
Overall	4.00	4.03	4.31	4.59	4.50	14.5
Families with children:						
Lowest	0.90	0.81	0.71	0.71	0.70	−20.3
Second	2.00	1.92	1.77	1.81	1.76	−9.3
Third	2.93	2.89	2.82	2.93	2.85	0.0
Fourth	3.98	3.98	4.09	4.23	4.13	6.2
Highest	7.32	7.47	8.59	9.25	9.10	26.4
Overall	3.48	3.45	3.64	3.80	3.70	9.0
Families with an aged head:						
Lowest	0.94	0.93	1.03	1.08	1.09	14.2
Second	1.66	1.64	1.93	2.07	2.08	24.6
Third	2.67	2.59	3.05	3.20	3.19	19.9
Fourth	4.09	4.01	4.59	4.72	4.69	15.3
Highest	9.77	10.81	11.68	13.87	13.94	41.9
Overall	3.43	3.61	4.04	4.52	4.52	31.5
Other:						
Lowest	1.25	1.25	1.13	1.19	1.16	−4.8
Second	2.99	2.94	2.76	2.87	2.81	−4.0
Third	4.45	4.41	4.29	4.46	4.36	0.3
Fourth	6.04	6.04	6.17	6.46	6.32	6.8
Highest	11.73	11.64	13.39	14.32	14.15	22.1
Overall	4.76	4.72	4.96	5.21	5.10	9.3

[1] Projected.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 11.—AVERAGE REAL PRETAX FAMILY INCOME BY FAMILY GROUP FOR SELECTED YEARS

[In constant 1992 dollars]

	1977	1980	1985	1989	1992 [1]	Percentage change 1977–89
All families:						
Lowest	9,368	8,791	8,198	8,391	8,274	−10.4
Second	22,333	21,009	19,940	20,140	19,686	−9.8
Third	34,505	32,948	32,142	32,681	31,973	−5.3
Fourth	46,772	45,827	46,444	47,913	46,909	2.4
Highest	87,268	89,031	100,526	109,424	108,300	25.4
Overall	40,065	39,443	41,359	43,495	42,690	8.6
Families with children:						
Lowest	12,449	10,986	9,313	9,379	9,139	−24.7
Second	27,957	26,052	23,774	23,853	23,158	−14.7
Third	40,193	38,927	37,059	38,260	37,285	−4.8
Fourth	53,257	51,879	53,014	54,441	53,259	2.2
Highest	94,444	95,749	106,797	115,998	114,363	22.8
Overall	46,385	45,170	46,504	48,597	47,392	4.8
Families with an aged head:						
Lowest	6,706	6,673	7,356	7,739	7,844	15.4
Second	12,574	12,471	14,796	15,828	15,906	25.9
Third	21,300	20,702	24,359	25,262	25,175	18.6
Fourth	33,780	32,722	37,842	38,466	38,225	13.9
Highest	81,975	89,900	97,956	117,371	118,233	43.2
Overall	27,909	29,237	32,928	36,906	37,026	32.2
Other:						
Lowest	9,185	9,116	8,295	8,630	8,450	−6.0
Second	23,223	22,632	21,452	21,914	21,389	−5.6
Third	37,016	35,888	34,322	35,811	34,989	−3.3
Fourth	51,031	50,982	51,609	53,898	52,824	5.6
Highest	101,032	99,663	114,264	120,559	119,178	19.3
Overall	39,684	39,035	40,980	42,571	41,689	7.3

[1] Projected

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 8.—AVERAGE ADJUSTED PRETAX AND POSTTAX FAMILY INCOME BY FAMILY, 1989

Quintile	Income as a multiple of poverty, 1989				Percent change 1977–89			
	Total families	Families with children	Families with an aged head	Other	Total families	Families with children	Families with an aged head	Other
Average Adjusted Pretax Family Income:								
Lowest	**0.89**	0.71	1.08	1.19	−8.8	−20.3	14.2	−4.8
Second	2.10	1.81	2.07	2.87	−1.3	−9.3	24.6	−4.0
Third	3.35	2.93	3.20	4.46	4.2	0.0	19.9	0.3
Fourth	4.94	4.23	4.72	6.46	9.1	6.2	15.3	6.8
Highest	11.75	9.25	13.87	14.32	29.0	26.4	41.9	22.1
Overall	4.59	3.80	4.52	5.21	14.5	9.0	31.5	9.3
Average Adjusted Post-Tax Family Income:								
Lowest	0.81	0.66	1.05	0.99	−9.1	−19.2	17.1	−7.8
Second	1.78	1.53	1.98	2.26	−1.7	−8.5	26.6	−5.1
Third	2.71	2.32	2.96	3.42	4.5	−0.7	21.2	0.0
Fourth	3.86	3.27	4.16	4.81	9.1	5.2	16.6	6.6
Highest	8.73	6.88	10.83	10.44	32.0	27.2	45.4	26.9
Overall	3.55	2.93	3.83	3.90	15.0	8.2	32.8	9.9

Note: Table reads for **boldface** figure that for the lowest 20 percent in income of the population in 1989, the average family was at 89 percent of the poverty threshold.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 9.—TOTAL FEDERAL EFFECTIVE TAX RATES FOR ALL FAMILIES

All families (by income group)	1977	1980	1985	1988	1989	1992 [1]	1994 [2]	1996 [3]	Percentage change 1977–89
Lowest quintile	**9.3**	8.1	10.3	9.3	9.3	8.7	7.6	8.7	0.1
Second quintile	15.4	15.6	15.8	15.9	15.7	15.6	15.4	15.6	1.4
Middle quintile	19.5	19.8	19.1	19.8	19.4	19.6	19.6	19.6	−0.5
Fourth quintile	21.8	22.9	21.7	22.4	22.0	22.3	22.3	22.3	0.7
81 to 90 percent	24.0	25.3	23.4	24.6	24.2	24.5	24.5	24.5	0.8
91 to 95 percent	25.2	26.3	24.2	26.0	25.6	26.2	26.2	26.2	1.5
96 to 99 percent	27.0	27.9	24.3	26.5	26.2	27.1	27.1	26.9	−2.9
Top 1 percent	35.5	31.7	24.9	26.9	26.7	28.8	28.8	28.1	−24.7
Overall	22.8	23.3	21.7	22.9	22.6	23.3	23.2	23.2	−0.7
Highest quintile	27.2	27.5	24.1	26.0	25.6	26.6	26.6	26.4	−5.8
Top 10 percent	28.8	28.6	24.5	26.5	26.2	27.5	27.5	27.1	−9.0
Top 5 percent	30.6	29.6	24.6	26.7	26.5	28.0	28.0	27.5	−13.5

[1] Projected.
[2] Fully phased in EITC (1994 tax law) simulated on 1992 incomes.
[3] Fully phased in EITC with the expiration of the limitation on personal deductions and the phaseout of personal exemptions (1996 tax law) simulated on 1992 incomes.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population in 1977, total Federal taxes were 9.3 percent of income.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 12.—AVERAGE ADJUSTED POSTTAX FAMILY INCOME BY FAMILY GROUP FOR SELECTED YEARS

	1977	1980	1985	1989	1992 [1]	1994 [2]	Percentage change 1977–89
All families:							
Lowest	0.89	0.85	0.79	0.81	0.80	0.80	−9.1
Second	1.81	1.76	1.72	1.78	1.74	1.75	−1.7
Third	2.60	2.56	2.62	2.71	2.65	2.65	4.5
Fourth	3.54	3.51	3.72	3.86	3.77	3.77	9.1
Highest	6.61	6.80	8.12	8.73	8.53	8.53	32.0
Overall	3.09	3.09	3.38	3.55	3.46	3.46	15.0
Families with children:							
Lowest	**0.81**	0.75	0.64	0.66	0.65	0.67	−19.2
Second	1.67	1.60	1.47	1.53	1.50	1.52	−8.5
Third	2.34	2.29	2.25	2.32	2.26	2.26	−0.7
Fourth	3.11	3.06	3.17	3.27	3.18	3.18	5.2
Highest	5.41	5.49	6.51	6.88	6.66	6.66	27.2
Overall	2.71	2.66	2.83	2.93	2.82	2.83	8.2
Families with an aged head:							
Lowest	0.90	0.90	1.00	1.05	1.06	1.06	17.1
Second	1.56	1.57	1.86	1.98	1.98	1.98	26.6
Third	2.44	2.40	2.84	2.96	2.94	2.94	21.2
Fourth	3.57	3.52	4.08	4.16	4.12	4.12	16.6
Highest	7.45	8.14	9.21	10.83	10.79	10.79	45.4
Overall	2.88	3.01	3.47	3.83	3.81	3.81	32.8
Other:							
Lowest	1.07	1.07	0.95	0.99	0.96	0.96	−7.8
Second	2.38	2.32	2.19	2.26	2.19	2.20	−5.1
Third	3.42	3.34	3.30	3.42	3.33	3.33	0.0
Fourth	4.51	4.43	4.64	4.81	4.69	4.69	6.6

Highest	8.23	8.23	10.02	10.44	10.16	10.16	26.9
Overall	3.55	3.50	3.77	3.90	3.77	3.77	9.9

[1] Projected.
[2] Fully phased-in EITC (1994 tax law) simulated on 1992 incomes.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population residing in a family with children, the average individual had posttax income equal to 81 percent of the poverty threshold.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 13.—AVERAGE REAL POSTTAX FAMILY INCOME BY FAMILY GROUP FOR SELECTED YEARS

	1977	1980	1985	1989	1992 [1]	1994 [2]	Percentage change 1977–89
All families:							
Lowest	8,495	8,079	7,353	7,608	7,555	7,645	−10.4
Second	18,885	17,740	16,798	16,987	16,609	16,657	−10.0
Third	27,788	26,417	25,988	26,350	25,705	25,718	−5.2
Fourth	36,563	35,320	36,367	37,379	36,452	36,457	2.2
Highest	63,546	64,583	76,252	81,399	79,475	79,476	28.1
Overall	30,948	30,269	32,364	33,663	32,741	32,772	8.8
Families with children:							
Lowest	**11,237**	10,061	8,311	8,593	8,535	8,735	−23.5
Second	23,322	21,615	19,612	20,035	19,608	19,775	−14.1
Third	32,137	30,884	29,471	30,352	29,463	29,500	−5.6
Fourth	41,639	39,855	41,065	42,147	41,021	41,033	1.2
Highest	69,942	70,452	81,065	86,405	83,709	83,714	23.5
Overall	36,087	34,803	36,157	37,499	36,194	36,275	3.9
Families with an aged head:							
Lowest	6,368	6,429	7,155	7,532	7,611	7,611	18.3
Second	11,844	11,956	14,238	15,121	15,147	15,149	27.7
Third	19,483	19,207	22,663	23,364	23,244	23,246	19.9
Fourth	29,477	28,711	33,629	33,884	33,586	33,588	15.0
Highest	62,601	67,768	77,222	91,669	91,535	91,536	46.4
Overall	23,351	24,326	28,149	31,154	31,070	31,071	33.4
Other:							
Lowest	7,911	7,848	7,021	7,207	7,022	7,033	−8.9
Second	18,518	17,948	17,035	17,281	16,805	16,817	−6.7
Third	28,555	27,348	26,498	27,521	26,782	26,786	−3.6
Fourth	38,266	37,616	38,920	40,304	39,311	39,313	5.3

VI. TREATMENT OF INCOME AND RESOURCES OF THE SELF-EMPLOYED UNDER THE AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC), SUPPLEMENTAL SECURITY INCOME (SSI), AND FOOD STAMP PROGRAMS [1]

A. TREATMENT OF INCOME AND RESOURCES OF THE SELF-EMPLOYED UNDER THE AFDC AND SSI PROGRAMS

Eligibility for cash welfare benefits is based on two measures of need: income and resources. This section provides information on how the programs of Aid to Families With Dependent Children and Supplemental Security Income treat the income and resources of recipients who are self-employed.

Aid to Families With Dependent Children

INCOME REQUIREMENTS

Law

General rule.—Federal law requires that all income received by an AFDC recipient or applicant be counted against the AFDC grant except that explicitly excluded by definition or deduction (sec. 402(a)(7) of SSA). Federal law does not define the term "income," but it does distinguish between earned income and other income. The State welfare agency is required to disregard specified amounts of earned income from the AFDC payment standard in determining eligibility status and/or benefit amount (sec. 402(a)(8) of SSA). In addition, the law stipulates that no family shall qualify for AFDC for any month in which the total income of the family (earnings and other income) exceeds 185 percent of the State's standard of need (sec. 402(a)(18)).

The AFDC benefit generally is computed by subtracting "countable" income from the State's payment standard. Countable income *excludes* the following amounts of monthly earned income of persons whose needs are included in the AFDC benefit: a standard allowance of $90 a month; for the first 12 months of AFDC enrollment, the first $30 of earnings; for the first 4 months of AFDC enrollment, one-third of earnings remaining; plus actual child care costs up to a ceiling of $175 per month per child ($200 for a child under age 2) (less for part-time work). After 12 months of AFDC enrollment, recipients, like applicants, are allowed only the standard deduction of $90 per month plus child care costs of up to $175 per child per month ($200 if child under age 2). However, in the

[1] The memorandum on income and resources of the self-employed under Aid to Families With Dependent Children (AFDC) and Supplemental Security Income (SSI) was prepared by Carmen Solomon. The memorandum on food stamps was prepared by Joe Richardson. Both are senior specialists in social legislation in the Education and Public Welfare Division of the Congressional Research Service.

case of AFDC children who are students with part-time jobs, *all* earnings are excluded from income used to calculate the AFDC benefit (sec. 402(a)(8)).

Federal law also requires that the earned income tax credit (whether received as a lump-sum payment at year's end, as an advance payment by negative "withholding" from the paycheck, or as an offset of tax liability) *not* be counted in determining AFDC eligibility and/or benefit amount (sec. 402(a)(8)(A)(viii).

Except for the first $50 of current child support received on behalf of the AFDC family, all unearned income reduces the family's AFDC benefit dollar-for-dollar (sec. 402(a)(8)(vi)).

Rule for self-employed persons.—The law does not specify how the income of persons who are self-employed is to be treated. In other words, the law does not distinguish between self-employed persons and other persons. Thus, if the self-employed person has earned income that income would be subject to the earned income rule. Similarly, if the person has unearned income, it would be considered countable income and thereby be subtracted from the AFDC benefit (except for the first $50 in child support payments as noted above). However, the law does not define "earned income."

Regulations

General rule.—Federal regulations provide that in determining the availability of income and resources, the following will not be included as income: (1) loans [2] and grants, such as scholarships, obtained and used under conditions that preclude their use for current living costs, (2) home produce of an applicant or recipient, used for the family's own consumption, (3) any amounts paid by the AFDC agency from State-only funds to meet the needs of children receiving AFDC, if the payments are made under a statutorily established State program which has been continuously in effect since before 1979, (4) income tax refunds, (5) the earned income tax credit, and (6) at State option, small nonrecurring gifts, such as those for Christmas, birthdays, and graduations, not to exceed $30 per recipient in any quarter (45 C.F.R. 233.20(a)(3)(iv)).

Federal regulations also provide that in determining AFDC eligibility and/or benefit amount, after all polices governing the disregard or setting aside of income have been uniformly applied, all other income shall be considered countable income and, thus, shall be subtracted from the appropriate AFDC benefit standard (45 C.F.R. 233.20(a)(3)(ii). Federal regulations define "earned income" as gross earned income before any deductions for taxes or for any other purposes, except for those related to the earnings of the self-employed (45 C.F.R. 233.20(a)(6)(iii). The regulations further state

[2] Under this regulation, loans that are available to meet current living expenses are considered countable income. However, because of an adverse court decision, the Department of Health and Human Services issued an information memorandum (January 3, 1989) that gave States permission to disregard bona fide loans as income and resources, and between January and June 1989, 45 States implemented the optional income and resources disregard. The court stated that the essential characteristic of a loan is that it must be repaid. This duty to repay distinguishes loans from wages, personal injury awards, gifts, child support payments, and all other forms of income. Since the borrower must repay the loan principal in its entirety (and probably with interest), the loan principal may not be income for AFDC purposes. The court further stated that since loans must be repaid, they are totally encumbered and have no equity value. Thus, it would not be appropriate to treat the loan principal as a resource under the AFDC program (Federal Register, v. 56, no. 135, July 15, 1991. p. 32154).

that with reference to commissions, wages, or salary, the term "earned income" means the total amount, irrespective of personal expenses, such as income tax deductions, lunches, and transportation to and from work, and irrespective of expenses of employment which are not personal, such as the cost of tools, materials, special uniforms, or transportation to call on customers (45 C.F.R. 233.20(a)(6)(iv)).

Rule for self-employed.—With respect to self-employment, "earned income" is defined by Federal regulations as the "total" profit from a business enterprise, farming, etc., resulting from a comparison of the gross receipts with the "business expenses," i.e., expenses directly related to producing the goods or services and without which the goods or services could not be produced. However, under AFDC regulations, items such as depreciation, personal business and entertainment expenses, personal transportation, purchase of capital equipment [3] and payments on the principal of loans for capital assets or durable goods [4] are not considered business expenses (45 C.F.R. 233.20(a)(6)(v)(B)).

RESOURCE REQUIREMENTS

Law

General rule.—Federal law directs the State welfare agency to determine ineligible for AFDC any family whose resources, i.e., real or personal property (reduced by any obligation or debts owed on the property) exceeds $1,000 or such lower amount as the State may determine, but not including as a resource the home in which the family lives, an automobile (so long as the individual's ownership interest does not exceed the amount specified in regulations), one burial plot for each member in the assistance unit, funeral agreements for each member in the AFDC family, and real property (for a limited time period) that the family is making a good faith effort to dispose of (sec. 402(a)(7)(B)).

Rule for self-employed persons.—The law does not indicate that the resources of self-employed persons are to be treated differently from the resources of employees, unemployed persons, or others applying for or receiving AFDC benefits. Neither does it differentiate with respect to resource exclusions.

Regulations

General rule.—The regulations restate Federal law and specify the monetary limits or time limits placed on the resources that are not totally excluded in calculating AFDC benefits or determining AFDC eligibility. There is no monetary limit on the home or on

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[3] According to the Department of Health and Human Services, because the Federal regulations do not define the term "capital equipment," the Internal Revenue Service (IRS) definition is used to distinguish purchases of capital equipment from business expenses. The IRS says that the cost of an asset to be used in a business for more than a year represents a capital expenditure.

[4] Although loans generally are not counted as income, the repayment of the principal on a loan is by default part of the profit from the business (and, thus, in effect is counted income). As noted earlier, for self-employed person earned income equals net profit (gross receipts [which includes money to be used to repay the loan principal] *minus* allowable business expenses). After subtraction of the allowable work deductions and disregards from net profit, the counted income (net profit minus disregards) is subtracted from the AFDC payment standard to determine the amount of the AFDC benefit check.

burial plots, but equity value (fair market value minus encumbrances (legal debts)) in the automobile or funeral agreements may not exceed $1,500 each or a lower level set by the State. The regulations limit the possession of real property that the family is making a good faith effort to dispose of to 6 months, or at State option, 9 months. In addition, unlike the law, the regulations stipulate that States may exclude basic maintenance items essential to day-to-day living, such as clothes and furniture and other similarly essential items of limited value (45 C.F.R. 233.20(a)(3)(i)).

Rule for self-employed persons.—Neither law nor Federal regulations mention capital equipment as being exempt from the resource requirement. Notwithstanding this, families with a self-employed caretaker relative are potentially eligible for AFDC benefits. The *Characteristics of State Plans* indicates that about half of the States specifically exclude from the resource limitation farm machinery, livestock, and tools and equipment essential to employment, livelihood, or income. According to an AFDC program official, the authority for States to exclude the items mentioned above from resources is implicit in the preamble to the final regulations implementing Public Law 97-35.[5]

Supplemental Security Income

INCOME REQUIREMENTS

Law

General rule.—The SSI program separates income into two categories, namely, earned and unearned. The law does not provide a definition of the term "income," but it defines earned income as consisting of wages, net earnings from self-employment, earned income tax credits, remunerations for services performed in a shelter workshop or work activities center, and any royalty earned by an individual for any publication of the individual's work and honorarium which is received for services rendered. The law defines "unearned income" as all other income, including most support and maintenance furnished in cash or in kind, any payments received as an annuity, pension, retirement or disability benefit, prizes and awards, death benefits, support and alimony payments, and rents, dividends, interest, and royalties that are not considered earned income. (sec. 1612(a) of SSA).

Not all income is counted in determining SSI eligibility and benefit amount. Under the SSI program, $20 of monthly income from virtually any source (such as Social Security benefits, private pensions, dividends, but not need-tested income such as veterans' pensions) is disregarded. In addition, the first $65 of monthly earned income plus one-half of remaining earnings are disregarded.[6] Moreover, SSI law authorizes about 15 other income exclusions (e.g., one-third of home energy payments, housing assistance, domestic travel tickets, etc.). The value of any in-kind assistance is counted as income unless such in-kind assistance is specifically disregarded by statute (sec. 1612(b) of SSA). As countable income (total income

[5] Federal Register, v. 47, no. 25, Feb. 5, 1982. p. 5657 and 5663.

[6] In addition, work-related expenses are disregarded in the case of blind recipients and impairment-related expenses are disregarded in the case of disabled recipients.

minus disregarded income) increases, a recipient's SSI benefit amount decreases. Eligibility for SSI ends when countable income equals the Federal benefit standard plus the amount, if any, of applicable State supplementation.[7]

Rule for self-employed persons.—With respect to self-employment, the law defines "earned income" as net earnings (sec. 1612(a)(1)(B) of SSA). Net earnings from self-employment generally are the total gross income, as computed under the Federal income tax law, derived by an individual from all trades and businesses, less the deductions (including the allowances for depreciation) attributable to the trade or business which the person is allowed to take in computing income tax (sec. 211 of SSA). Other business deductions include such items as salaries, traveling expenses, rentals, interest payments, property taxes, and uncompensated losses (sec. 162–167 of Internal Revenue Code).

Regulations

General rule.—Income is defined by Federal regulations as anything that a person receives and can use to meet his or her (basic) needs for food, clothing, or shelter (20 C.F.R. 416.1102). The regulations restate the law with respect to income exclusions (20 C.F.R. 416.1124).

Rule for self-employed persons.—The regulations restate the law with respect to the earned income of the self-employed (20 C.F.R. 416.1110(b)).

RESOURCE REQUIREMENTS

The program operations manual system (POMS) of the SSI program states that income is something an individual *receives* at any time during a month without necessarily establishing ownership. Resources, on the other hand, are what the person *owns*, and they are evaluated only as of the first moment of the month. Most income qualifies as a resource immediately following its receipt; however, the Social Security Administration (SSA) does not apply both income and resource counting rules to the same item in the same month. Thus, an item generally is considered a resource only if the recipient keeps it into the next month.

Law

General rule.—The law makes ineligible for SSI an individual or a couple whose resources are higher than the statutory limits. The statutory limits are $2,000 in the case of an individual and $3,000 in the case of an eligible couple (sec. 1611(a) of SSA). The law does not define the term "resources," but it does specify what is to be excluded from resources. A partial list of these items includes: the home, household goods and personal effects (to the extent that their total value does not exceed a "reasonable" amount, specified in regulations), an essential automobile, burial spaces and funds (dollar limit of burial funds is specified as $1,500), life insurance (dollar limit is specified as $1,500), property essential to self-sup-

[7] For an SSI recipient who received no State supplement and had no unearned income, the earned income eligibility limit (breakeven level) was $899 per month in 1991 (and will be $929 in 1992).

port (i.e., used in a trade or business or in the employment of a family member), and resources set aside as part of an approved plan to achieve self-support (PASS).[8] A PASS is an income and/or resource exclusion that allows a person who is blind or disabled to set aside income and/or resources for a work goal such as education, vocational training, or starting a business (sec. 1613 (a) and (d) of SSA).

Rule for self-employed persons.—The law does not indicate that resources of self-employed persons are to be treated differently from resources of other persons applying for or receiving SSI. However, as noted above, it does require the SSA to exclude (for purposes of SSI eligibility and/or benefit amount) all resources of blind and disabled persons who have requested and obtained a PASS if those resources are set aside for a work goal such as education, vocational training, or starting a business (and if those resources are necessary for the fulfillment of the plan) (sec. 1613(a)(4) of SSA). Moreover, as noted in the general rule, SSI also requires the exclusion of property essential to self-support.

Regulations

General rule.—The regulations define the term "resources" as cash, other personal property and real property that an individual owns and has the right to turn into cash to use for his own basic needs of food, clothing, and shelter (20 C.F.R. 416.1201). Not everything a person owns is a resource. A person may own something that he does not have the right to turn into cash or use for his basic needs. Although these possessions are among a person's assets, they do not meet the SSI definition of resource and do not affect eligibility. Moreover, not all resources count against the statutory limits of $2,000 and $3,000.

The regulations, like the law, list the resources that are excluded from SSI eligibility and/or benefit determination. There is no monetary limit on the home, burial spaces, or the value of property which is used in the person's trade or business, or in the employment of a family member. Federal regulations place a limit of $2,000 in equity value on excluded household goods and personal effects and exclude the first $4,500 in current market value of an automobile (100 percent of the auto's value if it is used for medical treatment or employment, has been modified for use by a handicapped person, or is necessary to perform essential daily activities because of distance, climate, or terrain). An individual and spouse may have excluded up to $1,500 each of burial funds. However, the $1,500 maximum amount is reduced by the face value of any excluded life insurance policies and the face value of any irrevocable burial contracts, trusts, or arrangements. In addition, there is no monetary limit on resources set aside as part of a PASS (20 C.F.R. 416.1210–1238).

Rule for self-employed persons.—Like the law, the regulations do not indicate that resources of self-employed persons are to be treat-

[8] Other resource exclusions are (1) certain stock in Alaska Regional or Village Corporations, (2) Federal disaster assistance, (3) retroactive title II (Social Security) or SSI benefits, (4) housing assistance, (5) domestic travel tickets. In addition, several other Federal statutes that provide assistance specify that the assistance will not be considered in determining eligibility for SSI.

ed differently from resources of other persons applying for or receiving SSI (except for persons with a PASS). The regulations, however, do provide a little more information about PASS than the law. For example, the regulations stipulate that a PASS must be (1) designed especially for an individual, (2) in writing, (3) approved by the SSA, designed for an initial period of not more than 18 months, and with extensions may not exceed a total of 48 months (20 C.F.R. 416.1226).

Earmarked Income and Accumulated Resources

The AFDC and SSI programs both generally disqualify a family or person from eligibility and benefits when their resources exceed specified limits. In other words, the programs generally do not permit the accumulation of assets or resources. In fact, many observers argue that welfare recipients usually do not receive enough money for basic needs from one month to the next, and some suggest that an AFDC mother who scrimps in order to save is in effect depriving her children of basic necessities. The primary rationale for the prohibition against "excess" asset accumulation is that both AFDC and SSI are considered programs of last resort, and many policymakers and observers maintain that it is unfair to require taxpayers to support poor families and individuals if those persons have income and resources that they could use to support themselves.

SUPPLEMENTAL SECURITY INCOME

Nevertheless, Federal law does allow very liberal treatment of resources (and income) for blind or disabled persons if those persons have a PASS. The PASS has been part of the SSI program since its enactment. The purpose of the provision, as expressed in the 1972 Senate committee report accompanying the enacting legislation, was to "* * * provide every opportunity and encouragement to the blind and disabled to return to gainful employment." The report further stated that the provision should be "liberally construed if necessary to accomplish these objectives."

Since the funds set aside under a PASS do not count against the SSI income or resource limits, a PASS can enable an individual to maintain or establish SSI eligibility when the individual otherwise would be ineligible because of excess income or resources. There is no dollar limit on the funds that can be set aside for a PASS. Thus, a blind or disabled person who applies for SSI and who has $15,000 in a savings account could be a potential PASS candidate. If, however, an individual has existing income earning capabilities that would make him or her ineligible for SSI if pursued, income and resources would not be excluded under a PASS. However, there might be cases in which a person with an advanced academic degree, no longer able to work in his/her area of expertise because of a disability, might obtain a PASS to pursue another degree; this would required that there be a reasonable chance that the individual could attain the objective of self-support with a PASS. In July 1991, approximately 2,100 SSI recipients had a PASS. This represented a minuscule proportion of the nearly 5 million persons enrolled in the SSI program.

AID TO FAMILIES WITH DEPENDENT CHILDREN[9]

In 1987, the Corporation for Enterprise Development, a nonprofit organization based in Washington, D.C., recruited States to participate in the Self-Employment Investment Demonstration (SEID), assisted them in applying for waivers of certain AFDC requirements and in raising supplemental funds, and provided technical assistance on program design and management. The purpose of the SEID is to test the feasibility of operating a program to encourage self-employment by AFDC recipients. Four States have been participating in SEID since its beginning in 1987 (Iowa, Michigan, Minnesota, and Mississippi). Maryland began participating in the SEID in October 1990.[10] The Section 1115 waivers needed to participate in the demonstration were designed to allow the self-employed recipients to accumulate business assets, take out loans, and reinvest business profits.

The SEID waivers raised the resource limits and excluded some property from counted resources so that AFDC recipients could retain and use assets for business purposes. According to MDRC, a research agency that has been contracted to do the evaluation of the SEID,[11] only Iowa was granted a waiver of the AFDC gross income eligibility test. Apparently Minnesota did not request a gross income waiver, and Michigan and Mississippi were denied a gross income waiver. Iowa's waiver requires the welfare agency to exclude the first $15,000 of an AFDC business owner's profits when applying the gross income eligibility test to the family's income. States participating in the SEID obtained waivers that allow SEID participants to disregard the net market value of nonhomestead property used for the SEID business (such as retail and manufacturing space) from the resource test as well as to disregard the entire equity value of any licensed vehicle used primarily for business purposes (such as a delivery van or a catering truck). In addition, SEID business owners are allowed to maintain a business bank account exceeding the $1,000 resource limit, provided it is used exclusively for business purposes. Different States placed different limits on the amount of money the participant can keep in a business account (the limit in Michigan is the highest, $10,000; Iowa and Mississippi have a limit of $5,000; and Minnesota has a limit of $3,000).

AFDC participants in the SEID also are allowed to count the purchase price of capital equipment or durable goods as a business deduction. Similarly, they can deduct payments on the principal as well as the interest on a business loan.

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[9] The information in this section is based on a report of the Manpower Demonstration Research Corporation (MDRC) entitled "Self-Employment for Welfare Recipients: Implementation of the SEID Program" [by] Guy, Cynthia A., Fred Doolittle, and Barbara L. Fink. Aug. 1991.

[10] At least one district in the State of Connecticut has for the last several years operated a self-employment program for AFDC recipients. The program was designed to facilitate economic independence for AFDC recipients by helping them to start their own business. (Congressional Record, Oct. 4, 1990. Remarks by Representative Kennelly. p. E3131.)

[11] MDRC is evaluating the four States that began participating in the SEID at its inception (i.e., it is not evaluating Maryland's demonstration).

Highest	71,131	70,645	85,714	88,031	85,706	85,706	23.8
Overall	29,579	28,978	31,200	31,898	30,897	30,904	7.8

[1] Projected.
[2] Fully phased-in EITC (1994 tax law) simulated on 1992 incomes.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population residing in a family with children, the average individual was in a family with posttax income equal to $11,237.

Source: Congressional Budget Office (CBO) tax simulation model.

TABLE 14.—TOTAL FEDERAL EFFECTIVE TAX RATES BY FAMILY GROUP FOR SELECTED YEARS

	1977	1980	1985	1989	1992 [1]	1994 [2]	Percentage change 1977–89
	Average Adjusted Pretax Family Income						
All families:							
Lowest	9.3	8.1	10.3	9.3	8.7	7.6	0.1
Second	15.4	15.6	15.8	15.7	15.6	15.4	1.4
Third	19.5	19.8	19.1	19.4	19.6	19.6	−0.5
Fourth	21.8	22.9	21.7	22.0	22.3	22.3	0.7
Highest	27.2	27.5	24.1	25.6	26.6	26.6	−5.8
Overall	22.8	23.3	21.7	22.6	23.3	23.2	−0.7
Families with children:							
Lowest	10.2	9.3	11.9	9.5	7.9	5.9	−7.0
Second	17.3	17.9	18.4	17.8	17.6	17.2	3.0
Third	20.7	21.4	21.3	21.5	21.8	21.8	4.0
Fourth	22.5	23.9	23.2	23.3	23.7	23.7	3.4
Highest	26.8	27.1	24.2	25.9	27.5	27.5	−3.2
Overall	22.2	23.0	22.2	22.8	23.6	23.5	2.9
Families with an aged head:							
Lowest	5.2	3.6	2.7	2.6	2.9	2.9	−49.0
Second	6.8	5.5	4.0	4.6	4.7	4.7	−32.8
Third	10.0	9.1	7.4	7.8	7.8	7.8	−22.1
Fourth	14.0	13.6	11.5	12.4	12.5	12.5	−11.1
Highest	24.1	25.2	21.2	22.0	22.6	22.6	−8.4
Overall	16.3	16.8	14.5	15.6	16.1	16.1	−4.6
Other:							
Lowest	12.1	10.9	13.7	14.7	15.2	15.1	20.8
Second	16.9	17.5	18.5	19.0	19.3	19.2	12.7

Third	20.9	21.2	21.4	22.0	22.4	22.3	5.5
Fourth	23.1	24.2	23.3	23.8	24.2	24.2	3.1
Highest	28.2	28.3	25.0	26.6	27.5	27.5	−5.6
Overall	25.5	25.8	23.9	25.1	25.9	25.9	−1.5

[1] Projected.
[2] Fully phased-in EITC (1994 tax law) simulated on 1992 incomes.

Note.—Table reads for **boldface** figure that for the lowest 20 percent in income of the population residing in a family with children, total Federal taxes were 10.2 percent of income.

Source: Congressional Budget Office (CBO) tax simulation model.

B. TREATMENT OF INCOME AND RESOURCES OF THE SELF-EMPLOYED IN THE FOOD STAMP PROGRAM

Income Requirements

Law

General rules.—The Food Stamp Act requires that earned income be treated in two separate ways (sec. 5 (d) and (e). All households must have counted (net) monthly income below the Federal poverty guidelines, after their total (gross) income has been reduced by a series of disregards (deductions). When measuring a household's income against this net income test, and when calculating a household's food stamp benefits, any earned income is reduced by deducting 20 percent, in recognition of taxes and work expenses; it also is reduced by a deduction for work-related dependent care costs up to $160 a month for each dependent.[12] In addition, households without elderly or disabled members must have gross monthly income below 130 percent of the Federal poverty guidelines. When measuring a household's income against this gross income test, all earned income is counted, with no reduction for taxes, work expenses, or dependent care costs.

Rules for the self-employed.—Income from self-employment is treated as earned income for food stamp purposes. However, the act also contains five special rules for income from a self-employment enterprise:

—Only that portion of self-employment income in excess of the cost of producing the income is to be counted (sec. 5(d)(9)).

—To the extent the cost of producing self-employment income in *farming* exceeds income from the farm operation (i.e., to the extent there is a "loss"), the amount of the loss must be offset against any other (non-farming) income to the household, thereby reducing the farm household's total counted income (sec. 5(d)(9). In other cases, losses are treated as "zero" income.

—Self-employed households that derive their annual income in a period of time shorter than 1 year (e.g., farm households), must have their income averaged over a 12-month period (sec. 5(f)(1)(A)).

—Certain self-employed farm households may opt to have any irregular business expenses averaged over a 12-month period (sec. 5(f)(1)(A)).

—If the averaged monthly amount of self-employment income, based on past experience, does not reflect a household's actual monthly circumstances, self-employment income must be calculated based on reasonably anticipated earnings (sec. 5(f)(1)(A)).

Regulations

General rules.—Regulations governing the general treatment of earned income do not significantly expand on the provisions of law noted above.

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[12] Other disregards not related to work or earnings include: (1) a standard deduction applied to all households, (2) a deduction for medical expenses (available to the elderly and disabled), and (3) a deduction for excessively high shelter costs.

Rules for the self-employed.—Regulations contain a number of specific directives as to how to calculate self-employment income, including what items are to be considered costs of doing business (7 C.F.R. 273.9(b)(1)(ii), 273.9(c)(9), and 273.11(a)).

Total income from a self-employment enterprise is defined as any income received through the enterprise, including the total gain from the sale of any capital goods or equipment related to the business. Specifically mentioned at various places in the regulations as examples of self-employment are ownership of rental property, operation of a boarding house, and farming.[13]

In order to calculate the net self-employment income used for food stamp eligibility and benefit calculations, regulations give examples of expenses that may be allowed as costs of producing self-employment income and specifically list those expenses that are not allowable:

—allowable expenses include the identifiable costs of labor, stock, raw material, seed and fertilizer, interest paid to purchase income-producing property, insurance premiums, and taxes paid on income-producing property;

—nonallowable expenses are (1) payments on the principal of the purchase price of income-producing real estate, capital assets, equipment, machinery, and other durable goods, (2) net losses from previous periods, (3) income taxes, (4) money set aside for retirement purposes, (5) work-related personal expenses such as transportation to and from work, and (6) depreciation; [14] and

—in the case of noncommercial boarding house operators, the cost of doing business is equal to (a) the maximum food stamp benefit for a household equal in size to the number of boarders or (b) the actual, documented costs of providing room and board, so long as any amount allowed does not exceed the boarders' payments.

The regulations also contain a number of special rules as to how to calculate net self-employment income, deal with income from farm self-employment, treat capital gains, determine benefits versus eligibility, and assign certification periods:

—The regulations require that, for determining food stamp income eligibility, self-employment income be converted to anticipated average monthly income by totaling all income from a self-employment enterprise over the prior 12-month period (or a shorter period if the enterprise is new or seasonal), subtracting all allowable expenses for the same period, and dividing by the appropriate number of months. The prior income and expense amounts used for this calculation must be adjust-

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[13] These are mentioned because special rules apply to them. Income from ownership of a rental property is treated as earned income only if a member of the household is actively engaged in the management of the property at least an average of 20 hours a week. To be considered a self-employed farmer, there must be annual gross farming proceeds of at least $1,000. And, special rules as to what items are included as costs of doing business are applied to boarding house operators (see later discussion).

[14] The food stamp program accounts for income taxes and work-related personal expenses by disregarding a standard 20 percent of household earnings, as noted earlier. Although not contained in the Food Stamp Act itself, the rule prohibiting allowing depreciation as a cost of producing self-employment income is the result of a specific congressional directive.

ed to take into account any anticipated changes if there has been or is expected to be a substantial change.

—As required by law, losses from farm self-employment may be used to reduce other counted income. This is done in two phases; nonfarm self-employment income is first reduced by any farming loss, and, if there is a remainder, any other income is reduced. In addition, the legal requirement for averaging irregular farm business expenses is carried out with a rule under which those households with farm self-employment income who must report monthly on income, expenses, and other household circumstances may opt to have their farm business expenses converted to a monthly average, as is the case for their income, rather than varied monthly (as reported).[15]

—Capital gains, the proceeds from the sale of capital goods or equipment, are required to be calculated in the same manner as a capital gain for Federal income tax purposes. The full amount of any capital gain must be counted as self-employment income in food stamp calculations.

—Once a household's income eligibility has been determined based on its average monthly self-employment income, the State agency may offer the household the option of having its *benefits* prorated unevenly over its certification period to approximate the time income is actually received, as opposed to using the calculated monthly average income to determine benefits.

—Households whose only income is from self-employment may be, and normally are, certified eligible for up to 12 months (the maximum food stamp certification period). However, shorter certification periods must be assigned to households with other types of income and those whose self-employment income is intended to cover less than a year, and initial certification periods for those to be certified for 12 months must be assigned to bring the household into an annual cycle that coincides with factors such as when the majority of income is received or the filing of income tax returns.

Asset Requirements

Law

General rules.—The act limits eligible households' counted assets to $2,000, or $3,000 for households with elderly members (sec. 5(g)(1)). In general, counted and disregarded assets are those specified in regulations in effect on June 1, 1982[16] (sec. 5(g)(2)). However, the act contains provisions overriding those regulations in certain areas:

—The Secretary of Agriculture is required to *count* (1) boats, snowmobiles, and airplanes used for recreational purposes, (2) vacation homes, mobile homes used for vacation purposes, (3)

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[15] In general, self-employment business expenses, irregular or not, are required to be averaged under the normal averaging rule described earlier.

[16] The Secretary of Agriculture is given authority to revise the June 1982 asset regulations to the extent they deal with licensed vehicles and inaccessible resources.

savings or retirement accounts (regardless of whether there is an early withdrawal penalty), and (4) the fair market value of licensed vehicles to the extent it exceeds $4,500 (other than vehicles used to produce earned income or necessary to transport physically disabled persons (sec. 5(g)(2)).

—The Secretary is required to *disregard* (1) the value of a burial plot for each household member, and (2) property directly related to the maintenance or use of a vehicle used to transport physically disabled persons (sec. 5(g) (2) and (3)).

Rules for the self-employed.—The act requires the Secretary to disregard farm property (including land, equipment, and supplies) essential to the self-employment of a household member in a farming operation for 1 year after that person ceases to be self-employed in farming (sec. 5(g)(4)). It also mandates a disregard for property directly related to the maintenance of use of a vehicle used to produce earned income (see 5(g)(3)).

Regulations

General rules.—Regulations add to the act's list of resources that must be counted: (1) liquid resources including cash on hand, checking accounts, savings certificates, stocks or bonds, and lump-sum payments such as retroactive social security benefits and income tax funds, and (2) the equity value of licensed vehicles, other than one vehicle per household, if greater than the amount by which the fair market value exceeds $4,500 (7 C.F.R. 273.8 (c) and (h)).

They also require exclusion of: (1) the household's home and surrounding property, (2) household goods and personal effects, (3) property producing income consistent with its market value (such as rental property), (4) installment contracts for the sale of land or buildings, (5) disaster payments, (6) inaccessible resources, (6) resources that have been proprated as income (such as student aid), (7) Indian lands, (8) nonliquid assets against which a lien has been placed, (9) property necessary for employment (other than vehicles used for daily commuting, and (10) resources specifically excluded for food stamp purposes by another Federal law (7 C.F.R. 273.8(e)).

Rules for the self employed.—Regulations add to the act's exclusions: property, such as farm land, work-related equipment, and vehicles, that is essential to self-employment. To be excluded under this rule, a vehicle must be used over 50 percent of the time to produce income, producing income consistent with its fair market value (even if used on a seasonal basis), or necessary for long-distance work-related travel (7 C.F.R. 273.8 (e)(5) and (h)(1)).

Setting Aside and Accumulating Resources

In certain situations, the Food Stamp Act allows setting aside and accumulating resources for self-employment. In the case of disabled Supplemental Security Income (SSI) recipients who are setting aside and accumulating resources under an SSI "plan for achieving self-sufficiency" (PASS), the income that is set aside and the accumulated resources do not affect food stamp eligibility or benefits (sec. 5 (a), (d)(16), and (j)). The act also requires that nonliquid resources necessary to allow a recipient to carry out a plan for

self-sufficiency, approved by a State agency as fulfilling the recipient's food stamp program employment and training requirements, not be counted as an asset (sec. 5(g)(3)). Regulations do not elaborate on these provisions.

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BACKGROUND MATERIAL ON FAMILY INCOME AND BENEFIT CHANGES

ERRATUM

Page 15 (Table 6 continued)—In the first column, over the item "$0 to $5,000", insert the following heading—

Marginal tax rates: